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)

Meropenem for Injection

International Placing and Public Offer

Sole Global Coordinator, Bookrunner, Lead Manager and Sponsor

HSBC

United Laboratories Chengdu

United Laboratories
Hong Kong

United Laboratories Zhuhai

Kingly Capsule

United Laboratories Zhuhai
(Zhongshan Branch Company)

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.

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

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INTERNATIONAL PLACING AND PUBLIC OFFER

Number of Offer Shares	**:**	**300,000,000 New Shares (subject to the Over-allotment Option)**
Number of International Placing Shares	**:**	**270,000,000 New Shares (subject to adjustment and the Over-allotment Option)**
Number of Public Offer Shares	**:**	**30,000,000 New Shares (subject to adjustment)**
Maximum Offer Price	**:**	**HK$2.75 per Offer Share payable in full on application, plus 1% brokerage, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to refund**
Nominal value	**:**	**HK$0.01 each Share**
Stock code	**:**	**3933**

Sole Global Coordinator, Bookrunner, Lead Manager and Sponsor

HSBC

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) on or about Friday, 8 June 2007 and, in any event, no later than Wednesday, 13 June 2007.

The Offer Price will not be more than HK$2.75 per Offer Share and is currently expected to be not less than HK$2.25 per Offer Share. Applicants for Public Offer Shares are required to pay, on application, the maximum offer price of HK$2.75 for each Share, together with brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price should be less than HK$2.75.

The Global Coordinator (on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus (which is HK$2.25 to HK$2.75 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. **If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the Offer Price is not agreed between the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) by Wednesday, 13 June 2007, the Share Offer will not proceed and will lapse.**

The obligations of the Public Offer Underwriter under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants for the subscription of the Public Offer Shares, are subject to termination by the Global Coordinator (on behalf of Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

4 June 2007

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] . . . . . 11:30 a.m. on Thursday, 7 June 2007

Application lists open[3] . . . . . 11:45 a.m. on Thursday, 7 June 2007

Latest time for lodging **YELLOW** and **WHITE** application forms . . . . . 12:00 noon on Thursday, 7 June 2007

Latest time to give electronic applications to HKSCC[4] . . . . . 12:00 noon on Thursday, 7 June 2007

Application lists close . . . . . 12:00 noon on Thursday, 7 June 2007

Expected Price Determination Date[5] . . . . . Friday, 8 June 2007

Announcement of

- the level of applications in the Public Offer;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Public Offer Shares

to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) . . . . . Thursday, 14 June 2007

Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph headed "Results of allocation" in the section headed "How to Apply for the Public Offer Shares") from . . . . . Thursday, 14 June 2007

Despatch of share certificates in respect of wholly or partially successful applications on[6] . . . . . Thursday, 14 June 2007

Despatch of refund cheques in respect of wholly or partially unsuccessful applications on[6, 7] . . . . . Thursday, 14 June 2007

Dealings in Shares on the Stock Exchange to commence on . . . . . Friday, 15 June 2007

Notes:

1. All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" of this prospectus.

2. You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 June 2007, the application lists will not be opened on that day. Further information is set out in the paragraph headed "How to apply for the Public Offer Shares – Effect of Bad Weather Conditions on the Opening of the Application Lists" in this prospectus.

4. Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "How to Apply by Giving Electronic Application Instructions to HKSCC" in the section headed "How to Apply for the Public Offer Shares" of this prospectus.

5. Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Friday, 8 June 2007, and in any event no later than Wednesday, 13 June 2007. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK$2.75 per Share payable by applicants for Shares under the Public Offer, applicants who apply for Shares must pay on application the maximum offer price of HK$2.75 per Share plus the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in "How to Apply for the Public Offer Shares".

6. Applicants who apply for 1,000,000 or more Public Offer Shares and have indicated in their Application Forms their wish to collect refund cheques and, where applicable, share certificates in person may do so from the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 June 2007 or any other date notified by the Company in the newspaper as the date of dispatch of share certificates and refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicant's own risk to the addresses specified in the relevant Application Forms shortly thereafter. Further information is set out in the paragraph headed "Refund of your money – additional information" under the section headed "Terms and conditions of the Public Offer" in this prospectus.

7. Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the initial price per Offer Share payable on application.

Share certificates will only become valid certificates of title provided that the Public Offer has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. on Friday, 15 June 2007. No dealing should take place in the Offer Share prior to the commencement of dealings in the Shares on the Stock Exchange. Investors who trade the Offer Shares prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Selling Shareholder, the Global Coordinator, the Sponsor, any of the Underwriters, any of their respective directors, or any other person or party involved in the Share Offer.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are summarised in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS

The Group is principally engaged in the manufacture and sale of antibiotics finished products and the bulk medicine and intermediate products used to produce them. It is one of the major manufacturers of antibiotics in the PRC. The Group also produces and sells smaller amounts of cough syrup, anti-allergy medicine and capsule casings. According to information published by Southern Medical Economic Research Centre (南方醫藥經濟研究所), the Group ranked amongst the top 20 chemical pharmaceutical industry enterprises (化學製藥工業企業) in the PRC in 2005 in terms of revenue.

Customers of the Group's finished products include primarily distributors of pharmaceutical products in the PRC such as Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) and Yunnan Pharmaceutical Industrial Company Limited (雲南醫藥工業股份有限公司). For sales of intermediate products and bulk medicine outside the PRC, its customers include pharmaceutical manufacturers and distributors such as DSM Anti-infectives India Ltd., HELM AG, Daewoong Chemical Co., Ltd. and Indukern Chemie A.G.. The Directors believe that the quality of the Group's products and their price competitiveness are both key factors in helping the Group to establish its extensive customer base.

The Group has a vertically integrated production operation which enables it to undertake the upstream production of intermediate products, the mid-stream processing of intermediate products into bulk medicine as well as the downstream production of antibiotics finished products from bulk medicine. The Directors believe that such vertical integration provides the Group with more flexibility to expand its production as well as better control over product quality and production costs.

The following table sets out a breakdown of the Group's turnover by major product categories for the three years ended 31 December 2004, 2005 and 2006, respectively:

Product	**Year ended 31 December 2004**		**Year ended 31 December 2005**		**Year ended 31 December 2006**	
	(HK$'000)	*(% sales by value)*	*(HK$'000)*	*(% sales by value)*	*(HK$'000)*	*(% sales by value)*
Intermediate products	0	0	53,903	3.1	197,373	9.5
Bulk medicine	639,897	53.3	896,447	52.1	1,077,294	51.8
Finished products and capsule casings	560,207	46.7	770,092	44.8	805,812	38.7
Total	1,200,104	100	1,720,442	100	2,080,479	100

While the Group derived 78.6% or more of its total turnover from sales in the PRC in the year ended 31 December 2006, the Group has been actively developing sales outside the PRC of its bulk medicine and intermediate products. For the three years ended 31 December 2004, 2005 and 2006, the Group's sales outside the PRC, which were primarily made to Germany, Korea and India, totalled HK$118.6 million, HK$212.3 million and HK$445.8 million respectively, representing approximately 9.9%, 12.3% and 21.4% of the Group's total turnover, respectively. The Directors believe that such sales have helped the Group gain wider brand recognition in overseas markets and will help pave the way for the Group to develop sales of its antibiotics finished products and intermediate products in those markets. While the Directors expect the PRC market to remain the Group's primary focus, the development of overseas sales will help the Group reduce its reliance on the PRC market and its exposure to price controls imposed by the PRC Government on a wide range of pharmaceutical products in the PRC.

The PRC Government has imposed price controls over a wide range of antibiotics finished products and other pharmaceutical products, including all medicine listed in the Insurance Catalogue mainly by prescribing a retail ceiling price for each product. While these price controls apply to the retail price of a product (as opposed to the wholesale price, at which the Group sells its finished products to its customers), retailers and distributors often seek to pass on part of the effects of such price reductions to manufacturers.

During the Track Record Period, the PRC Government reduced the prescribed retail ceiling prices of a wide range of products that were subject to government-mandated price controls on three occasions. In May 2004, the retail ceiling prices of various anti-inflammatory products were reduced, including those of 22 of the Group's finished products which were reduced by between 16% and 55.1%. In September 2005, the PRC Government implemented another price reduction which affected nine of the Group's finished products. The retail ceiling prices of those nine products were reduced by between 20.1% and 64%. Eight of those products had also had their retail ceiling prices reduced in 2004. In August 2006, a third round of price reductions was implemented which affected the retail ceiling prices of five of the Group's finished products, which were reduced by between 17% and 53.8%. None of those products were affected by the price reduction implemented by the PRC Government in 2004 or 2005.

Sales of finished products whose retail ceiling prices were reduced accounted for approximately 24.8%, 2.1% and 12.3% of the Group's total turnover in the three years ended 31 December 2004, 2005 and 2006, respectively. For the year ended 31 December 2004, the Group's total turnover decreased by 6.6% when compared to the year ended 31 December 2003, a smaller percentage decrease than that of its turnover derived from sales of finished products whose retail ceiling prices were reduced, which decreased by 28.2%. For the year ended 31 December 2005, the Group's total turnover increased by 43.4% when compared to the year ended 31 December 2004, even though turnover derived from sales of all finished products whose retail ceiling prices were reduced decreased by 31.1% between those two years. For the year ended 31 December 2006, the Group's total turnover derived from sales of its finished products whose retail ceiling prices were reduced increased by 6.5% when compared to the year ended 31 December 2005, while the Group's total turnover increased by 20.9% between those two years.

A more detailed analysis of the impact of the reductions of the government-mandated retail price ceilings on the Group's total turnover generally and the total turnover of the products affected by such reductions specifically is set out under "Price reductions, their impact on the Group's results and mitigating measures adopted" in the section headed "Financial information" of this prospectus.

The Group was able to mitigate in part the impact on its total turnover of reductions in these government-mandated retail price ceilings through a variety of measures. These measures included adjustment to the Group's product mix, increasing marketing efforts for selective finished products, selling increased quantities of certain of its products, increasing overseas sales and reducing costs as a percentage of total annual turnover.

The Group operated in a highly challenging environment in China over the Track Record Period, primarily as a result of reductions in government-mandated retail price ceilings for its various products as well as increasingly intense competition within the industry. The Group's total turnover increased, however, by 43.4% from HK$1,200.1 million in 2004 to HK$1,720.4 million in 2005, and by 20.9% from HK$1,720.4 million in 2005 to HK$2,080.5 million in 2006. Its EBITDA also grew by 19.7% from HK$282.2 million in 2004 to HK$337.7 million in 2005 and by 48.4% from HK$337.7 million in 2005 to HK$501.2 million in 2006. The Group's net profit increased from HK$149.4 million in 2004 to HK$173.8 million in 2006.

The Group's profitability over the Track Record Period was also affected by the pre-operating expenses, depreciation and interest expense related to the construction of its new production plant in Chengdu which started in July 2003. The Chengdu plant commenced production for sale to third party customers in 2005, and for the two years ended 31 December 2004 and 2005, its segment results recorded losses of HK$51.5 million and HK$52.1 million, respectively. However, it recorded positive segment results of HK$25.4 million for the year ended 31 December 2006. The Directors consider the investment in the Chengdu plant as an important strategic move for the Group, as it gives the Group the capability of producing its own supply of intermediate products required for its production of bulk medicine and hence, more flexibility in choosing between producing its own supply or purchasing from third party suppliers in the light of market conditions. It also allows the Group to have better and more direct control over quality and production.

As at the Latest Practicable Date, the Group mainly produced three categories of antibiotics finished products, namely semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors. These products are mainly used for the treatment of microbial infections including respiratory infections, digestive system infections, urinary system infections and skin and soft tissue infections.

The following table shows the number of Drug Registration Approvals and Certificates of Drug/Product Registration obtained by the Group and the number of products the Group was qualified to produce and the number of products which the Group was engaged in as at 31 December 2006:

	Number of Drug Registration Approvals (in the PRC) and Certificates of Drug/Product Registration (in Hong Kong) obtained for the Group's products	**Number of products the Group was qualified to produce in the PRC and/or Hong Kong based on the Drug Registration Approvals and Certificates of Drug/Product Registration held by the Group**	**Number of products in production in the PRC and/or Hong Kong as at 31 December 2006**
Total:	148	127	72 *(Note 2)*
– Bulk medicine	30	30	19
– Finished products	118 *(Note 1)*	97	53 *(Note 3)* • 33 products listed in the Insurance Catalogue • 49 prescription medicine and 4 OTC medicine • 11 products (including bulk medicine and finished products) with Certificates of New Medicine with unexpired protection, transition or monitoring periods *(Note 4)*

Notes:

1. Such number includes 89 Drug Registration Approvals and 29 Certificates of Drug/Product Registration.

2. Such number includes 71 products in production by the Group in the PRC, of which 3 were also in production in Hong Kong; and one product which was in production only in Hong Kong.

3. There were three finished products that were produced by the Group both in the PRC and Hong Kong as at 31 December 2006.

4. The protection, transition or monitoring periods of five of such products expired in the first half of 2007. Hence, as at the Latest Practicable Date, six of the Group's products in production had Certificates of New Medicine whose protection, transition or monitoring periods had not yet expired.

The Group is currently applying for regulatory approval in the PRC to engage in the production of two penem type antibiotics finished products which it has developed. Penem type antibiotics are, to the knowledge of the Directors, the latest generation of antibiotics that have been introduced to the market and are more advanced than the three categories of antibiotics which the Group is currently producing.

The State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme provides participants with partial reimbursement of the costs of medicine listed in the Insurance Catalogue (the percentage of reimbursement varies in different regions in the PRC). Most of the Group's products that are currently listed in the Insurance Catalogue are antibiotics finished products and include one of the Group's best selling products, amoxicillin capsules. The Directors believe that because of the availability of partial state insurance cover, medicine listed in the Insurance Catalogue are generally more popular among consumers than those which are not. Revenue derived by the Group from sales of finished products listed in the Insurance Catalogue as at 31 December 2006 accounted for approximately 27.8%, 24.8% and 20.7% of its total annual turnover for the three years ended 31 December 2004, 2005 and 2006, respectively.

Of the Group's finished products in production as at 31 December 2006, sales of OTC medicine amounted to HK$9.4 million, HK$10.7 million and HK$13.9 million, while sales of prescription medicine amounted to HK$532.8 million, HK$740.8 million and HK$775.2 million in the three years ended 31 December 2004, 2005 and 2006, respectively.

The table below sets out information relating to six selected antibiotics finished products produced by the Group which achieved a top five ranking when each was compared to the same type of products purchased by a sample of 257 hospitals in the PRC (the "Sample Hospitals") in 2004, 2005 and 2006 based on a survey conducted by Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心) (being an Independent Third Party). The six selected antibiotics finished products, together, accounted for 33.8%, 34.8% and 29.6% of the Group's total turnover in the three years ended 31 December 2004, 2005 and 2006, respectively.

			Year ended 31 December 2004		Year ended 31 December 2005		Year ended 31 December 2006	
Antibiotics finished products	**Listed in the Insurance Catalogue**	**Brand name under which the type of product is sold by the Group**	**Percentage which the Group's products accounted for among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Ranking among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Percentage which the Group's products accounted for among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Ranking among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Percentage which the Group's products accounted for among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Ranking among the same type of antibiotics finished products purchased by the Sample Hospitals**
Semi-synthetic penicillin type								
Oral Ampicillin	No	安必仙	85.4%	1	84.2%	1	90.5%	1
Oral Amoxicillin	Yes	阿莫仙	50.5%	1	65.5%	1	65.3%	1
Cephalosporins type								
Oral Cefuroxime Axetil	Yes	聯邦賽福欣	9.7%	4	13.2%	4	16.4%	4
Cefoperazone Sodium for injection	Yes	賽福必	6.8%	3	5.6%	5	7.1%	5
β-*lactamase type*								
Tazobactam Sodium and Piperacillin Sodium for injection	Yes	聯邦他唑仙	22.2%	2	24.7%	1	22.5%	1
Amoxicillin and Clavulanate Potassium for injection	Yes	強力阿莫仙	22.9%	2	31.4%	2	30.2%	2

Source: Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心)

The Group produces three types of intermediate products, namely 6-APA, 7-ACA and T-octylammonium clavulanate which are processed into the three types of bulk medicine, namely semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors. Semi-synthetic penicillin and cephalosporins bulk medicine are used to produce semi-synthetic penicillin and cephalosporins antibiotics finished products respectively; while semi-synthetic penicillin or cephalosporins type bulk medicine is mixed with β-lactamase inhibitor type bulk medicine to produce β-lactamase inhibitor antibiotics finished products.

The Group sells its finished products to pharmaceutical distributors and its intermediate products and bulk medicine to distributors and other pharmaceutical manufacturers. As at 31 December 2006, the Group had 800 sales representatives who were responsible for the sales of the Group's antibiotics and other finished products and were stationed among the Group's 24 sales offices located throughout the PRC. The Group also had 20 sales representatives who were responsible for sales of its intermediate products and bulk medicine as at 31 December 2006.

The Group's five production plants are located in Zhuhai, Zhongshan and Kaiping in Guangdong Province and Chengdu in Sichuan Province in the PRC as well as Hong Kong. Those plants, together, occupy a total site area of approximately 717,160.75 sq.m. The Group carries on the upstream production of intermediate products at its production plant in Chengdu; the mid-stream production of bulk medicine in Zhuhai; and the downstream production of antibiotics finished products in Zhongshan and Hong Kong. The Group also produces its non-antibiotics finished products such as cough syrup and anti-allergy medicine in Zhongshan. The production plant in Kaiping specialises in producing capsule casings.

The Group has obtained GMP certification for all its production workshops in Zhongshan and Zhuhai in accordance with the regulatory requirements in the PRC. Those requirements do not apply to the Group's production plants in Chengdu and Kaiping which are engaged in the production of intermediate products and capsule casings, respectively. The Group has obtained a Certificate for Manufacturer from the Pharmacy and Poisons Board in Hong Kong for its production plant in Hong Kong which has been issued on the basis of compliance with good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation.

The Group undertakes research and development both on its own and in collaboration with universities in the PRC or other medical research institutions such as the chemical engineering department of Tsinghua University (清華大學) and the Sichuan Industrial Institute of Antibiotic of China National Pharmaceutical Group Corporation (中國醫藥集團總公司四川抗菌素工業研究所) in the PRC. The Group's research and development activities focus on both improving product quality and production efficiency as well as developing new products.

The Group has obtained or is currently in the process of applying for the following registrations or certificates in relation to its products outside the PRC:

Product	Type of registration or certificate obtained or being applied for	Regulatory body	Purpose of registration or certificate
Amoxicillin bulk substance	Drug Master File Type II (no. DMF 15377)	FDA (U.S.)	The Drug Master File may be used to support a new drug application
Amoxicillin trihydrate	Certificate of Suitability of the Monographs of the European Pharmacopoeia (under application)	European Directorate for the Quality of Medicines (EDQM)	This certificate may be used to demonstrate compliance with the relevant monographs of the European Pharmacopoeia in support of an application for market authorisation
	Pharmaceutical Approval Certificate (藥品許可證)	Department of Health, Executive Yuan (行政院衛生署) (Taiwan)	This certificate is required to allow the product to be imported into Taiwan
Cefoperazone sodium USP	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Sulbactam sodium USP	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Tazobactam sodium and Piperacillin sodium	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Ceftriaxone sodium USP	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Amoxicillin trihydrate	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia
Ampicillin trihydrate	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia

Product	Type of registration or certificate obtained or being applied for	Regulatory body	Purpose of registration or certificate
Cefotaxime sodium	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia
Ceftriaxone sodium	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia

The Group has received many awards from governmental departments and industry organisations in the PRC in recognition of its achievements in product quality and technological development and success in brand development, further details of which are set out in the paragraph headed "Awards" under the section headed "Business" in this prospectus.

OPPORTUNITIES

There has been significant growth in health care expenditure in the PRC in recent years. Based on information in the China Statistical Extracts 2006 (二零零六年中國統計摘要) published by China Statistics Press (中國統計出版社), total expenditure for public health in China in 2004 reached approximately RMB759 billion (equivalent to approximately HK$770 billion), while per capita total expenditure on health increased from approximately RMB361.1 (equivalent to approximately HK$366.5) in 2000 to approximately RMB583.9 (equivalent to approximately HK$592.7) in 2004, representing a double digit CAGR of approximately 12.8%. This is much higher than the growth in per capital total expenditure on health in the United States over the same period, which recorded a CAGR of approximately 7.4%. According to forecasts for the global pharmaceutical market published by IMS Health, the PRC pharmaceutical market is expected to grow at 15% to 16% in 2007, while the US market is expected to grow at 4% to 5% and the global pharmaceutical market at 5% to 6%.

In the Pharmaceutical Industry Guidance Opinion issued in June 2006 which sets out key policy objectives for the development of the PRC pharmaceutical industry for the five-year period from 2006 to 2010, the key areas of reform and development identified by the PRC Government include the review of the price control policies and measures on pharmaceutical products as well as the extension of medical services and state medical insurance coverage.

In "The Opinion on Further Regulating Market Pricing in the Drugs and Medical Services Market"《關於進一步整頓藥品和醫療服務市場價格秩序的意見》issued by the PRC Government in May 2006, the PRC Government indicated that it may consider raising the prescribed retail ceiling prices of certain pharmaceutical products whose prices have been reduced to a level that is not sufficiently commercially attractive for manufacturers to continue producing. To limit the profit margins derived from the sales of pharmaceutical products, the PRC Government has already mandated that medical institutions (including hospitals) at county and higher levels may not sell pharmaceutical products at a price greater than 15% above the price at which they purchased such products. The PRC Government also plans to increase investments in hospitals with a view to

encouraging hospitals to cease relying on charging high margin on medicine as a major means of funding their operating expenses. The Directors believe that these measures will help reduce the pressure of price reduction on manufacturers in respect of products that are subject to government-mandated price controls, from which the Group will also be able to benefit.

Pursuant to the "State Council Guidance Opinion relating to the Development of Community Health Services in Cities" (《國務院關於發展城市社區衛生服務的指導意見》) issued in February 2006, the State Basic Medical Insurance Scheme is extended to cover the reimbursement of the cost of medical consultation and medicine at community health service institutions in the PRC that meet certain prescribed requirements as part of the PRC Government's efforts to promote their use. The Directors believe that this development may create new opportunities for the Group as the extension of the State Basic Medical Insurance Scheme is likely to result in increased use of community health service institutions by the public and hence, increased demand for pharmaceutical products from those institutions.

Another key area of reform and development for the pharmaceutical industry in the PRC outlined in the Eleventh Five-year Plan is the expansion of the New Rural Cooperative Medical Scheme. One of the objectives stated in the "Notice on Accelerated Promotion of Test-Point Work for the New Rural Cooperative Medical Scheme" (《關於加快推進新型農村合作醫療試點工作的通知》) issued in January 2006 is to extend the coverage of the New Rural Cooperative Medical Scheme to virtually all rural residents in the PRC by 2010. The PRC Government has also committed to increasing funding for the New Rural Cooperative Medical Scheme so that participants will benefit from reimbursement of an increased level of medical expenses. Funding contribution at both central and local government levels to the New Rural Cooperative Medical Scheme has increased from an aggregate amount of RMB30 (equivalent to approximately HK$30) (including RMB10 contributed by each participant) per year to RMB50 (equivalent to approximately HK$51) (including RMB10 contributed by each participant) per year in respect of each participant under the scheme with effect from 2006. Given the significant size of the rural population in the PRC, the Directors believe that such commitment from the PRC Government will further enhance opportunities in the rural market which the Group has already started developing for its antibiotics and other finished products.

At the fifth meeting of the tenth National People's Congress held in March 2007, Premier Wen Jiabao stated in the "Government's Report" (《政府工作報告》) that the PRC Government will accelerate the reform and development of health services in the PRC. It will focus on building a basic health care system that covers both rural and urban areas. The PRC Government will actively promote the implementation of the New Rural Cooperative Medical Scheme. Test points will be expanded to cover over 80% of the counties in the PRC. The central government will make available subsidies of RMB10.1 billion in 2007, an increase of RMB5.8 billion over subsidies made available in 2006. The central government has also budgeted for social security spending of RMB201.9 billion in 2007, representing an increase of RMB24.7 billion over 2006. The government's objective is to strengthen the rural health service network at county, village and town level so that residents in rural areas will have access to safe, efficient, convenient and low cost medical health services. The government will also accelerate the development of the community-based new urban health service system where the emphasis will be placed on the development of community health services.

As at the end of 2006, the trial implementation of the New Rural Cooperative Medical Scheme had been extended to cover 1,451 counties in the PRC, which accounted for 50.7% of the total number of counties in the PRC. The scheme covered approximately 410 million farmers or approximately 47.2% of the total population engaged in the agricultural industry in the PRC.

While the Group had to operate in a highly challenging environment over the Track Record Period due primarily to government price reductions and more intense competition, the Directors remain highly confident in the Group's development in the PRC. The Directors believe that the continued high growth of the PRC economy and total public health expenditure and per capita health expenditure in the PRC as well as the PRC Government's further commitment in the development of public health services in both urban and rural areas will bring new opportunities to the Group.

PRINCIPAL STRENGTHS

The Directors consider that the Group's principal strengths are:

Major manufacturer of generic antibiotics finished products in the PRC with established brand name recognised for high quality products

The Group is one of the major manufacturers of generic antibiotics products in the PRC. As a large scale producer, the Group enjoys the benefit of an established and extensive sales and distribution network in the PRC as well as the ability to continually improve its cost competitiveness through developing economies of scale in production.

The Group sells its intermediate products, bulk medicine and finished products under its  trade mark. The Directors believe that the Group has built up strong market recognition of its brand name in the PRC primarily on the basis of the quality of its products and customer service. The Directors consider that the quality of the Group's products and their price competitiveness have been key factors in helping the Group develop sales to overseas pharmaceutical manufacturers and distributors such as DSM Anti-infectives India Ltd., HELM AG, Daewoong Chemical Co., Ltd. and Indukern Chemie A.G.. The Directors believe that brand recognition will continue to be one of the key factors enabling the Group to distinguish its products and to maintain its competitive advantage in an intensely competitive market such as the PRC.

The Group has received many awards in recognition of its achievements in product quality and technological development and success in brand development from various governmental departments and industry organisations in the PRC including Guangdong Provincial Quality Inspection Bureau (廣東省質量技術監督局) and Famous Pharmaceutical Brands Assessment Committee of Guangdong Province (廣東省醫藥行業名牌產品審定委員會).

The Group has also been involved in a wide range of charitable donations and sponsorships including the United Laboratories Medical Education Scholarship Programme (聯邦醫學教育獎學金計劃) between 1998 and 2003 and hosting or sponsoring educational or research seminars for medical practitioners and senior management staff at hospitals and medical institutions, which the Directors believe have helped build up the Group's reputation in the PRC.

Vertically integrated production operation gives the Group more flexibility to choose between producing its own supply of intermediate products and purchasing from third party suppliers and enhances its ability to produce the major types of bulk medicine for the production of its antibiotics finished products and is expected to allow the Group to exercise better, more direct control over quality and production costs

The completion of its new production plant in Chengdu provided the Group with the capability to supply the intermediate products required for its mid-stream production of bulk medicine. This new capability provides the Group with more flexibility to choose between producing its own supply of intermediate products or, as with 7-ACA in 2006, purchasing from third party suppliers in the light of market conditions. It also significantly enhances the Group's ability to produce the major types of bulk medicine required for its downstream production of antibiotics finished products. The Directors believe that the Group's vertically integrated production operation, when fully utilised, is expected to allow it to exercise better, more direct control over quality and production costs and that, depending upon the then-current market price for certain intermediate products and bulk medicine, it may also allow the Group to achieve a lower cost structure than other pharmaceutical producers in the PRC who are engaged in the production of similar antibiotics products but do not have the benefit of this type of vertical integration.

With a stable supply of intermediate products and bulk medicine, the Group is able to reduce its exposure to market fluctuations in the supply, price or quality of penicillin G potassium salt, 7-ACA and β-lactamase inhibitors which the Group had experienced in the past when it had to rely solely on purchasing those materials from third party suppliers.

With its vertically integrated production operation, the Group is able to exercise quality control over the entire production process for 6-APA, 7-ACA, T-octylammonium clavulanate and β-lactamase inhibitors. The Directors believe that this control may further enhance the quality and lower the cost of the Group's bulk medicine and antibiotics finished products.

The Group has adopted what it refers to as the "direct extraction method" in its production of 6-APA, which, the Directors believe, allows 6-APA to be produced by a shorter production process than is commonly used by other manufacturers in the PRC. The Directors believe that only a few of its major competitors in the PRC are able to apply such "direct extraction method" in their production. The Group has also adopted a production process known as enzyme catalysis (酶法) for 7-ACA which, the Directors believe, also allows a shorter production process for 7-ACA than is commonly used by other manufacturers in the PRC. These processes have enabled the Group to improve the efficiency of its production of both 6-APA and 7-ACA.

Extensive sales and marketing network providing strong market coverage in the PRC

The Group has established an extensive sales and marketing network in the PRC for its antibiotics and other finished products, comprising 24 sales offices with 800 sales representatives as at 31 December 2006 that cover all of the provinces, autonomous regions and directly-administrated municipalities in the PRC except the Tibet Autonomous Region and Inner Mongolia Autonomous Region. This network of sales offices, working together with distributors to whom the Group primarily sells its finished products, provides the Group with extensive market coverage and customer reach in the PRC. Through its sales offices, the Group also collects customer feedback on its products as well as local market intelligence. Apart from its 24 sales offices, the Group has also separately established a sales team for the sales and marketing of its intermediate products and bulk medicine.

While the Group has successfully built up its market share for its antibiotics and other finished products in major cities such as Shanghai and provinces such as Jiangsu, Zhejiang and Liaoning, the Directors consider that the Group's extensive sales and marketing network also provides a strong platform for the Group to develop sales in rural areas and its other less established markets such as Yunnan and Hunan. The Directors believe the PRC Government's recent initiative to improve public health service and medical insurance coverage in rural areas as well as continued improvements in living standards among the rural population will present increasing opportunities for the Group's antibiotics and other finished products.

Wide range of existing and potential products providing a strong basis for expansion and diversification and more flexibility in responding to changes in market conditions, including any future reductions of the government-mandated retail ceiling prices applicable to its antibiotics or other finished products

As at 31 December 2006, the Group has obtained Drug Registration Approvals in the PRC and Certificates of Drug/Product Registration in Hong Kong in relation to a wide range of products, of which 72 products were in production and 55 were not, which provide the Group with a strong reserve of potential products. The Group is currently applying for regulatory approval in the PRC to engage in the production of two penem type antibiotics finished products which it has developed. Penem type antibiotics are, to the knowledge of the Directors, the latest generation of antibiotics that have been introduced to the market and are more advanced than the three categories of antibiotics which the Group is currently producing. Subject to obtaining such approvals and to market conditions, the Group expects to launch this type of antibiotics finished products in the second half of 2007. To the Directors' knowledge, penem type antibiotics finished products are not currently widely produced by pharmaceutical manufacturers in the PRC and as at the Latest Practicable Date, only three pharmaceutical manufacturers have obtained Drug Registration Approvals in relation to penem type antibiotics finished products in the PRC. The Directors believe that the Group's early involvement in the production of penem type antibiotics finished products will provide it with an important competitive advantage for such product in the PRC.

The Group has also been seeking to diversify its product range to more non-antibiotics finished products, such as eye drops and cough syrup. The Group is currently applying for regulatory approval to produce a number of new products in the PRC including various eye drop products, one new cough medicine and two new medicine for influenza. For details in relation to products under development by the Group, please refer to the paragraph headed "Research and Development" under the section headed "Business" of this prospectus.

The Directors consider that the wide range of products which the Group is currently producing as well as those for which it has obtained Drug Registration Approval but has yet to commence production and the introduction of two penem type finished products and other new products will provide the Group with a strong basis for expansion and diversification in the future. The Group will also have more flexibility to respond to changes in market conditions, including any future reduction of the government-mandated retail ceiling prices applicable to certain of its antibiotics finished products. Among the measures adopted by the Group in the past to reduce the impact of price controls on certain of its antibiotics finished products was the introduction of new products or increase in production of other existing products which were not subject to such price reduction.

Success in the development of sales outside the PRC

For the three years ended 31 December 2004, 2005 and 2006, turnover derived from sales outside the PRC, totalled HK$118.6 million, HK$212.3 million and HK$445.8 million, accounted for 9.9%, 12.3% and 21.4% of the Group's total turnover, respectively. The Group's success in developing sales of its bulk medicine and, starting in 2005, to a lesser but increasing degree, its intermediate products, outside the PRC provides the Group with a strong platform for the further development of overseas sales, including for the Group's antibiotics finished products. The Directors consider that one of the Group's key competitive advantages in terms of overseas sales is its low production cost.

Experienced management and commitment to raising standards of internal control

Key members of the Group's management team including Mr Choy, the Chairman of the Group, have significant experience in the pharmaceutical industry in the PRC. Mr Choy is a visiting professor of Wuhan Tongji Pharmaceutical University (武漢同濟醫科大學) and also the Deputy Chairman of the board of directors of Shenyang Medical University (瀋陽藥科大學). Seven of the eight senior management members (excluding non-executive directors and independent non-executive directors) of the Group have a background in pharmaceutical or chemical industries. The Group has also benefited from the understanding of its senior management members of the needs and preferences of customers in the PRC pharmaceutical market. Their personal connections have also helped the Group establish and strengthen its relationships with governmental bodies in the pharmaceutical industry in the PRC.

The Directors consider the quality and stability of the Group's senior management to be one of the key factors behind the Group's success. All of the Group's current senior management members (excluding the independent non-executive directors) have been working for the Group for ten years or more.

BUSINESS STRATEGIES

The Directors have noted a certain level of consolidation among pharmaceutical manufacturers in the PRC in recent years and in particular, an increasing number of small-size manufacturers being taken over by larger manufacturers or eliminated through competition. The Directors expect that this trend will continue in the near future as the leading manufacturers seek to consolidate their market position. The Directors are of the view that the current market conditions in the PRC are best suited for the further development of larger scale manufacturers such as the Group who have an established market share, a recognised brand name nationwide, large scale production plants and an extensive sales and marketing network. The Group's overall objective is to become the leading and the largest generic antibiotics manufacturing enterprise in the PRC offering a wide spectrum of high-quality products. The Group's principal business strategies include:

Maximising the benefits of large scale production and vertical integration including the flexibility to source supplies from outside third parties, rather than manufacturing them internally, when economically advantageous

The new production plant in Chengdu provides the Group with capability to supply the 6-APA, 7-ACA and T-octylammonium clavulanate required for its semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors type bulk medicine production (though over the Track Record Period and

through the Latest Practicable Date it continues to procure supplies of certain of these intermediate products from outside third parties). This capability also provides the Group with an additional source of income through external sales of surplus intermediate products in excess of what is needed for its own downstream production. The Chengdu plant started generating a segment profit in 2006. The Group will focus on enhancing the production output and efficiency of the Chengdu plant in the near future.

The Group intends to maximise the benefits of large scale production and vertical integration by seeking to improve its cost competitiveness through developing economies of scale in production. The Group intends to focus on both expanding its production of, and further enlarging its market share for, antibiotics finished products in the PRC and at the same time increasing its sales of intermediate products and bulk medicine to third party customers. Given that it now has the capability to control the entire production process from intermediate products to antibiotics finished products, the Group will seek to further improve product quality and production efficiency and to reduce production costs. The Group will also seek to increase the overall utilisation rate of its production plants.

Because the Group's production facilities at its production plant in Chengdu can be used interchangeably for the production of 6-APA, 7-ACA and T-octylammonium clavulanate, the Group may, from time-to-time, based on market conditions, assess and adjust the use of such production facilities, and if necessary, shift among the production of these three intermediate products, where it is economically advantageous to do so. For example, due to market conditions becoming more favourable in the first few months of 2007, the Group intends to convert in the second half of 2007 some of its facilities currently producing 7-ACA to produce 6-APA. If implemented, this shift may increase the Group's production capacity for 6-APA by 578 tonnes in the second half of 2007, bringing the Group's annual designed production capacity for 6-APA to 4,045 tonnes, based on the current annual designed production capacity of 3,467 tonnes.

Enlarging its market share in urban areas and expanding its market coverage in rural areas in the PRC and increasing sales outside the PRC

The Group intends to further enlarge its market share in urban areas in the PRC such as Shanghai and major cities in provinces such as Jiangsu, Zhejiang and Liaoning where the Group already has an established market presence. In these markets, the Group intends to focus on increasing its market share for antibiotics and other finished products, particularly higher margin products which are not subject to price controls by the PRC Government. The Group will also focus on new opportunities which may arise in connection with the PRC Government's initiative to promote the use of community health services institutions in urban areas pursuant to the "State Council Guidance Opinion relating to the Development of Community Health Services in Cities" (《國務院關於發展城市社區衛生服務的指導意見》) and to improve medical services in rural areas pursuant to the "Guidance Opinion relating to the Development of Community Health Services in Rural Areas" (《關於加快推進新型農村合作醫療試點工作的通知》) issued by the State Council.

While sales in the PRC currently account for a significant majority of the Group's total annual turnover, the Group plans to continue to increase its sales outside the PRC. With the commencement of production of intermediate products at its new plant in Chengdu, the Directors expect that the Group's production capacity for intermediate products, bulk medicine and antibiotics finished products will enable the Group to cover not only its expansion in the PRC but also the development of the markets outside the PRC. The Group has started actively to develop sales in markets such as Germany, Korea and India. The Group plans to increase its exposure in the international market by increasing its participation in international pharmaceutical trade fairs and conferences.

Further strengthening its sales and marketing network, especially in rural areas in the PRC

In support of its strategy to further enlarge its market share for antibiotics and other finished products in its established markets in the PRC and to expand its market coverage of areas outside those markets, the Group plans to continue to recruit additional sales staff for the sales and marketing of its finished products. The additional sales staff will be assigned to the Group's 24 existing sales offices and any new sales offices which may be established.

The Group will continue to work closely with pharmaceutical distributors located in different parts of the PRC to expand the sales and marketing of its antibiotics and other finished products. Given the vast geographical expanse of the PRC market, the Directors consider that establishing long term business relationships with pharmaceutical distributors in different locations and working closely with them to sell and market the Group's products will remain to be an important aspect of the Group's sales strategies.

The Group will continue to co-operate closely with distributors in sales and marketing activities, including maintaining direct contact with hospitals, clinics, pharmacies and other customers to whom the distributors sell, and hosting seminars which the distributors will participate to promote and explain the use and effect of the Group's products. The Directors consider the Group's active participation in such sales and marketing activities to be crucial, particularly in assisting the distributors to provide accurate and comprehensive information on the Group's products to their customers.

The Group also plans to further establish its presence in the rural markets of the PRC through increasing marketing efforts in rural areas in the PRC. As the market is less developed in rural areas than in urban areas, the Group will attempt to reduce the number of intermediaries involved in the sale of its antibiotics and other finished products in rural markets. Through adopting a simpler distribution structure, the Group will seek to improve its margins on sales in those markets.

Expanding its product range and introducing new antibiotics and other products

The Group will further expand its product range by introducing both new antibiotics and other products.

As at 31 December 2006, the Group has obtained Drug Registration Approvals in the PRC in respect of 89 finished products, 37 of which were not yet in production. As at the Latest Practicable Date, the Group has obtained Certificates of New Medicine for nine products whose protection or transition periods had not yet expired, three of which were not yet in production. Depending on market conditions, the Group may start production and sale of some of these products in future. In addition, the Group had a total of 26 finished products under development which were (i) pending Drug Registration Approvals or (ii) had obtained approvals for clinical trial or undergoing clinical trial in the PRC as at the Latest Practicable Date.

The Directors believe bio-medicine has become more widely used in the PRC in recent years and that this increase in usage is mainly attributable to lower risk of side effects generally associated with bio-medical products than chemical medicine. The Group is currently engaged in the research and development of four bio-medical products, including an insulin for the treatment of diabetes, a medicine for the treatment of Alzheimer's disease and a vaccine for the treatment of prostate cancer.

In October 2005, the Group obtained an exclusive licence for a term of 20 years from an Independent Third Party to use certain patented technology for the production of a medicine for the treatment of hepatitis B in the PRC. The Group has applied for regulatory approval to engage in the production of this medicine in the PRC.

Further improving product quality and customer service

In a highly competitive market such as the PRC, one of the Group's key strategies is to seek to distinguish its products from its competitors through high standards in product quality and customer service. The Group will seek to further enhance the quality of its products by raising quality control standards, improving production techniques, upgrading its equipment, educating and training its staff and strengthening its research and development capability.

The Group places equal emphasis on enhancing the quality of its customer service, particularly in relation to communication with customers and monitoring their feedback on the Group's products.

SUMMARY FINANCIAL INFORMATION

Combined income statements

For the three years ended 31 December 2004, 2005 and 2006

	Year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Turnover	1,200,104	1,720,442	2,080,479
Cost of sales	(801,556)	(1,120,682)	(1,344,180)
Gross profit	398,548	599,760	736,299
Other income	35,508	12,867	9,918
Selling and distribution costs	(125,300)	(261,167)	(284,093)
Administrative expenses	(93,952)	(104,938)	(122,956)
Other expenses	(14,726)	(15,356)	(37,791)
Finance costs	(18,684)	(47,353)	(85,485)
Share of results of an associate	(5,118)	(8,342)	(2,726)
Gain on disposal of an associate	–	–	8,612
Profit before taxation	176,276	175,471	221,778
Taxation	(26,917)	(42,526)	(47,940)
Profit for the year	149,359	132,945	173,838
Attributable to:			
Equity holders of the Company	132,111	116,566	173,838
Minority interests	17,248	16,379	–
	149,359	132,945	173,838
Earnings per share *(HK$)*	0.15	0.13	0.19
EBITDA[(1)]	282,235	337,703	501,260

Note:

(1) EBITDA refers to earnings, including share of profit from associates but before minority interests, interest expenses, income taxes, depreciation and amortisation. EBITDA is presented to enhance understanding of the Group's operating results. The calculation of EBITDA is not a measure of financial performance under generally accepted accounting principles, including HK GAAP. Items excluded from EBITDA are significant components in understanding and assessing financial performance. The Directors believe that investors and securities analysts will find EBITDA to be a useful measure for evaluating the Group's cash flows from operations, for comparing its operating performance with that of similar companies that have different capital structures and for evaluating the Group's capital expenditures and working capital requirements. EBITDA should not be considered in isolation or as an alternative to net profit for the period, cash flows from operating activities, investing activities or financing activities, or other data presented in the Group's financial statements as indicators of financial performance or liquidity. Because the calculation of EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, the EBITDA presented may not be comparable to other similarly titled measures of performance of other companies. For a reconciliation of net profit for the period to EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – EBITDA".

Combined balance sheets

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	1,019,949	1,511,964	1,977,633
Non-current assets	1,466,959	1,819,269	1,734,587
Current liabilities	1,010,099	1,771,834	1,972,526
Non-current liabilities	501,412	434,392	428,099
Equity attributable to equity holders	881,112	1,012,965	1,311,595
Minority interests	94,285	112,042	–

Breach of loan covenants

During the Track Record Period, the Group breached certain financial covenants (the "financial covenants") contained in the loan agreements entered into by the Group with one of its principal banks. Those financial covenants required that the gearing of the Group should not exceed a specified ratio and prohibited the pledging of certain assets by the Group. The bank has waived its rights against the Group in respect of such breach. Further details on such breach are contained in the accountants' report set out in Appendix I to this prospectus and the risk factor headed "If the Group were to breach loan covenants again in the future, its business may be negatively affected" in the section headed "Risk Factors" in this prospectus.

OFFERING STATISTICS[1]

	Based on an Offer Price of HK$2.25	Based on an Offer Price of HK$2.75
Market capitalisation of the Shares[2]	HK$2,700 million	HK$3,300 million
Pro forma adjusted net tangible asset value per Share[3 and 4]	HK$1.59	HK$1.71

Notes:

(1) All statistics in this table are on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalisation is based on 1,200,000,000 Shares expected to be in issue following completion of the Share Offer.

(3) The pro forma adjusted net tangible asset value per Share is based on 1,200,000,000 Shares expected to be in issue following completion of the Share Offer.

(4) The pro forma adjusted net tangible asset value and the pro forma adjusted net tangible asset value per Share as shown in the above do not take into account the payment of a special dividend of approximately HK$277,083,000 on 21 May 2007 to the then sole shareholder of the Group. After taking into account the payment of the special dividend, the pro forma adjusted net tangible assets of the Group and the pro forma adjusted net tangible asset value per Share would have been decreased.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the Share Offer will enhance the Group's capital base and provide funding for the implementation of its future plans.

The net proceeds of the Share Offer after deducting commissions and related expenses, and assuming an Offer Price of HK$2.50 per Share (being the mid-point of the stated range of the Offer Price of between HK$2.25 and HK$2.75 per Share), are estimated to amount to approximately HK$672.2 million (the "Net Proceeds"). In connection with its future plans (details of which are more particularly set out in the paragraph headed "Future plans" under the section headed "Future Plans and Use of Proceeds" in this prospectus), the Group currently intends to apply the Net Proceeds as follows:

(1) approximately HK$294.0 million (representing approximately 43.7% of the net proceeds) for expansion and upgrading of the Group's production facilities;

(2) approximately HK$106.9 million (representing approximately 15.9% of the net proceeds) for market development and expansion of the Group's sales and marketing network;

(3) approximately HK$73.5 million (representing approximately 10.9% of the net proceeds) for strengthening the Group's research and development capabilities by setting up additional research and development facilities;

(4) approximately HK$180.4 million (representing approximately 26.8% of the net proceeds) for the partial repayment of two of the Group's outstanding loan facilities, one of which is due in September 2007 and carries an interest rate of 5.76% per annum and the other is due in December 2007 and carries an interest rate of 6.12% per annum; and

(5) the balance of approximately HK$17.4 million (representing approximately 2.7% of the net proceeds) as general working capital of the Group.

The loan facilities referred to in paragraph (4) above is not provided by The Hongkong and Shanghai Banking Corporation Limited or any of its subsidiaries. The Company has undertaken to the Stock Exchange that it will not use any part of the Net Proceeds to repay any loan due from the Group to The Hongkong and Shanghai Banking Corporation Limited or any of its subsidiaries.

The above allocations of the proceeds from the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is fixed at the highest or at the lowest point of the indicative Offer Price range.

The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder pursuant to the exercise of the Over-allotment Option. All of the net proceeds of such sale will be for the account of the Selling Shareholder. Further information in relation to the use of proceeds of the Share Offer is set out in the section headed "Future plans and use of proceeds".

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, the Directors currently intend to place such proceeds on short term deposits with banks and qualified financial institutions.

DIVIDEND POLICY

The Directors intend to declare dividends, if any, in Hong Kong dollars with respect to Shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to approval from the Company's shareholders.

Taking account of the Group's financial position, the Directors currently intend, subject to the abovementioned limitations, and in the absence of any circumstance which might reduce the amount of dividend available for distribution, whether by losses or otherwise, to distribute to the Company's shareholders not less than 35% of the Group's profits available for distribution for the year ended 31 December 2007, and, for subsequent years. There is, however, no assurance that dividends of such amount or any amount will be declared or distributed in any year.

The payment of dividends may be limited by legal restrictions and by financing agreements that the Group may enter into in the future.

For further details on the timing, amount and form of future dividends, if any, the Company's ability to pay cash dividends, the factors affecting the payment of dividends and PRC laws and regulations governing dividend distribution for the Company's operating PRC subsidiaries incorporated as foreign invested enterprises and domestic enterprises, please see the paragraph headed "Dividends and working capital" under the section headed "Financial Information" of this prospectus.

RISK FACTORS

There are certain risks involved in the Group's operations. These risks can be categorised into: (i) risks relating to the Group's industry; (ii) risks relating to the Group; (iii) risks relating to the PRC; and (iv) risks relating to the Share Offer.

Risks relating to the Group's industry

- As there has been a consistent history of price controls being imposed, similar controls may continue to be imposed in the future.

- The Group operates in a highly competitive industry characterised by significant price competition. The Group may not be able to continue to sell an increasing volume of its products to partly mitigate the impact of this pricing pressure on its total turnover.

- The Group faces competition when it entered in tender processes or from other competitors, including those who may have greater financial, technical, manufacturing and other resources than the Group.

- Like other PRC-based pharmaceutical manufacturers, the Group's production plants process certain hazardous materials that subject it to operational risks which could, if realised, adversely affect the Group's financial conditions.

- There is no assurance that the Group's existing products will continue to be included or new products developed by the Group will be included in the Insurance Catalogue.

- Pharmaceutical manufacturers in the PRC and Hong Kong, including the Group, require a number of licences to operate in the PRC and Hong Kong and are subject to government regulations in the PRC, Hong Kong and elsewhere, which requirements and regulations increase costs, delay time to market and could prevent entirely the manufacture and sale of pharmaceutical products.

- If any batch of the Group's products were manufactured improperly or were contaminated, that could lead to direct financial losses for the Group and may tarnish its brand.

- Rapid changes in the pharmaceutical industry may render the Group's products obsolete.

- The Group's business is seasonal.

- The Group is subject to environmental regulations and may be exposed to liability and potential costs for environmental compliance.

Risks relating to the Group

- Any reduction in turnover from the sale of its two biggest-selling individual products could materially harm the Group's financial results.

- Recent significant increases in sales outside the PRC and sales of intermediate products may not continue.

- The Group's production plant in Chengdu only began production for sale to third party customers in 2005. In addition to the industrial accident there in January 2006, the Group may experience further operational difficulties with the new processes, new equipment and related technology. Any similar disruptions or problems in the future may cause further disruptions to production and further financial losses.

- The Group faces competition for suitable personnel, which may make it difficult to recruit and retain employees.

- The Group's marketing activities are critical to the success of its finished products, and if the Group fails to grow its marketing capabilities or maintain adequate spending on marketing activities, the market share of the Group's finished products and its brand name and product reputation would be adversely affected.

- The Group relies on independent third-party distributors for all sales of its finished products (and a portion of the sales of its bulk medicine to overseas customers) to end consumers. The Group may not be able to effectively manage its distribution network, and its reputation, business, prospects and brand may be materially and adversely affected by actions taken by its distributors.

- If employees of the Group in the PRC were to engage in any business practice that may be in violation of any PRC law or regulations in an attempt to increase sales in the future, such employees, companies, their management who are directly responsible and other directly responsible persons may be subject to legal liability and the Group's business may be harmed.

- The Group's brand name could be damaged if the Group were to be fined in the future for non-compliance of laws regulating the contents of advertisements in the PRC.

- The Group's business may suffer if it is unable to obtain and defend intellectual property rights or if it does not gain access to the intellectual property rights of others.

- If the Group were to lose one of its largest customers, or particularly its largest customer, its business may be harmed.

- Changes in payment practices have led to increasing debtor turnover days and creditor turnover days over the Track Record Period.

- The Group's operating results may be adversely affected by the loss of the services of Mr Choy or other senior management.

- If the Group fails to obtain all required certificates and regulatory approvals for production at its production workshops in its Hong Kong production plant which are currently not in operation, the Group's ability to expand the utilisation of the Hong Kong production plant may be adversely affected.

- None of the Group's pharmaceutical products are patented and so other pharmaceutical manufacturers in the PRC and elsewhere may produce products similar to those of the Group.

- Intellectual property rights associated with the  trade mark and other registered trade marks owned by the Group may be infringed in the future or may be alleged to infringe on the rights of third parties.

- The Group's substantial leverage (and high gearing ratio) may affect its ability to expand, and any increase in interest rates may materially affect the Group's results.

- If the Group were to breach loan covenants again in the future, its business may be negatively affected.

- Net current liabilities during the Track Record Period.

- The Group's business depends heavily on the supply of certain raw materials; should the supply of raw materials decrease or the cost of those materials otherwise increase, the Group's business would be adversely affected.

- If the Group were to fail to comply with applicable regulations in jurisdictions outside the PRC, its sales there may be harmed.

- If the Group were to fail to comply with applicable product standards in the PRC, its sales may be harmed.

- The Group's insurance may be insufficient to cover losses in the future.

- The Group's future success depends on its ability to achieve and manage growth.

- The Group's success depends in part on its ability to successfully develop and commercialise new pharmaceutical products.

- There is no assurance that the Company will declare dividends in the future.

Risks relating to the PRC

- Changes in the economic and political environment in the PRC and policies adopted by the PRC Government to regulate its economy may adversely affect the Group's business, operating results and financial conditions.

- The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to the Group.

- Change in the laws and regulations in the PRC relating to protection periods and monitoring periods governing new medicine registered in the PRC may lead to increased competition earlier than before, which may harm the Group's turnover and profitability.

- The Group enjoyed a low enterprise income tax rate over the Track Record Period; going forward, this effective enterprise income tax rate may rise, which would harm the Group's profitability and results of operations.

- The Group's business could be affected by electricity shortages in the PRC.

- Fire, severe weather, flood or earthquake could cause significant damage to the Group's production plants in the PRC and disrupt its business operations.

- China's accession to the WTO may intensify competition in China's pharmaceutical industry.

- Because the percentage of the Group's turnover that has been derived from sales outside the PRC has grown over the Track Record Period, while almost all of the Group's expenses are denominated in Renminbi, the Group is increasingly exposed to foreign currency exchange rate fluctuations.

- The payment of dividends by United Laboratories Zhuhai to the Company is subject to restrictions under PRC law.

Risks relating to the Share Offer

- The Company will continue to be controlled by the Choy Family, whose interests may differ from those of other shareholders.

- There has been no prior public market for the Shares and liquidity may be low.

- The Share price may be volatile.

- Shareholders' shareholding may be diluted as a result of future equity fundraising.

- It may be difficult to effect service of process upon or secure judgments against the Group, the Company or the respective directors and officers.

- There are risks associated with forward-looking statements.

- Certain facts and statistics contained in this prospectus have come from various publicly available sources whose reliability cannot be assumed or assured.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms" of this prospectus.

"**Application Forms**"	**WHITE** and **YELLOW** application forms or where the context so requires, either of them
"**Articles of Association**" or "**Articles**"	the articles of association of the Company adopted on 25 May 2007 and as amended from time to time
"**associates**"	has the meaning ascribed thereto under the Listing Rules
"**Bear World**"	Bear World Limited (平滙有限公司), a company incorporated with limited liability in Hong Kong on 1 February 1996 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Group
"**Board**"	the board of Directors
"**Bowden Trading**"	Bowden Trading Limited (寶鼎貿易有限公司), a company incorporated with limited liability in Western Samoa on 21 May 1996 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Holding
"**Business Day**"	a day (other than a Saturday or Sunday) on which banks in Hong Kong are generally open for normal banking business
"**BVI**"	British Virgin Islands
"**BVI Holding Company**"	Gesell Holdings Limited (精彩控股有限公司), a company incorporated with limited liability in the BVI on 21 September 2006 and held as to 100% by The Choy Family Trust
"**BVI Intermediate Company**"	Heren Far East Limited (喜來遠東有限公司), a company incorporated with limited liability in the BVI on 26 September 2006 and held as to 100% by BVI Holding Company
"**Capitalisation Issue**"	the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 25 May 2007" in Appendix V to this prospectus
"**CCASS**"	the Central Clearing and Settlement System established and operated by HKSCC

"**CCASS Broker Participant**"	a person admitted to participate in CCASS as a broker participant
"**CCASS Custodian Participant**"	a person admitted to participate in CCASS as a custodian participant
"**CCASS Investor Participant**"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"**CCASS Participant**"	a CCASS Broker Participant or CCASS Custodian Participant or a CCASS Investor Participant
"**Choy Family**"	Mr Choy, Mrs Choy, Ms Choy, Mr Tsoi and Ms Shum or any one of them
"**Companies Law**"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"**Companies Ordinance**"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"**Company**"	The United Laboratories International Holdings Limited (聯邦制藥國際控股有限公司), a company incorporated with limited liability in the Cayman Islands on 6 March 2006
"**Controlling Shareholder(s)**"	has the meaning ascribed to it in the Listing Rules and in relation to the Company, each of BVI Holding Company, BVI Intermediate Company, The Choy Family Trust and the Choy Family
"**Director(s)**"	the director(s) of the Company
"**DMF**" or "**Drug Master File**"	Drug Master File, as defined in the Regulation Title 21 Code of Federal Regulations Section 314.420 of the United States
"**Drugs Pricing Catalogue**"	the catalogue of drugs set out in 國家發展和改革委員會關於印發《國家發展改革委定價藥品目錄》的通知 (Notice on the Issue by NDRC of the National Development and Reform Commission Priced Drugs Catalogue) issued by the State Planning Commission in 2005 which superceded 國家計委關於印發《國家計委定價藥品目錄》的通知 (Notice on the Issue by the State Planning Commission of the State Planning Commission Priced Drugs Catalogue issued by the State Planning Commission in 2000

"**EBITDA**"	EBITDA refers to earnings, including share of profit from associates but before minority interests, interest expenses, income taxes, depreciation and amortisation
"**Eleventh Five-Year Plan**"	the Eleventh Five-Year Plan for National Economic and Social Development (國民經濟和社會發展第十一個五年規劃) issued by the National People's Congress in March 2006
"**EU**"	European Union
"**Euro(s)**"	the lawful currency of those members states of the European Union that have adopted such currency
"**FDA**"	Food and Drug Administration of the United States
"**Global Coordinator**" or "**HSBC**" or "**Sponsor**"	The Hongkong and Shanghai Banking Corporation Limited, who is a registered institution under the Securities and Futures Ordinance to carry on type 1 (Dealing in Securities), type 4 (Advising on Securities), type 6 (Advising on Corporate Finance) regulated activities and is also a licensed bank under the Banking Ordinance
"**Group**"	the Company and its subsidiaries
"**HK dollars**" or "**HK$**" and "**cents**"	Hong Kong dollars and cents, respectively, the lawful currency for the time being of Hong Kong
"**HKSCC**"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"**HKSCC Nominees**"	HKSCC Nominees Limited
"**Hong Kong**"	the Hong Kong Special Administrative Region of the PRC
"**Hong Kong Branch Share Registrar**"	Computershare Hong Kong Investor Services Limited
"**Hong Kong GAAP**"	accounting principles generally accepted in Hong Kong
"**Hong Kong Government**"	the Government of Hong Kong
"**Independent Third Party**" or "**Independent Third Parties**"	(a) person(s) or company(ies) which is/are independent of and not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries within the meaning of the Listing Rules or any of their respective associates

"**Insurance Catalogue**"	《國家基本醫療保險和工傷保險藥品目錄》 (the State Basic Medical Insurance and Work Injury Insurance Catalogue) issued by the Ministry of Labour and Social Security of the PRC in 2004, which superceded 《國家基本醫療保險藥品目錄》 (the State Basic Medical Insurance Drugs Catalogue) issued by the Ministry of Labour and Social Security in 2000
"**International Placing**"	the conditional placing by the International Placing Underwriters of the International Placing Shares for cash at the Offer Price with institutional, professional and other investors, as further described in the section headed "Structure of the Share Offer" in this prospectus
"**International Placing Shares**"	the 270,000,000 New Shares being initially placed pursuant to the International Placing (subject to reallocation and any adjustment pursuant to the exercise of the Over-allotment Option adjustment)
"**International Placing Underwriters**"	the underwriters listed in the paragraph headed "International Placing Underwriters" under the section headed "Underwriting" in this prospectus
"**International Placing Underwriting Agreement**"	the underwriting agreement expected to be entered into on or before 8 June 2007 by, *inter alia*, the Company, the Selling Shareholder, Mr Choy (as guarantor of the Selling Shareholder's obligations) and the International Placing Underwriters in respect of the International Placing, as further described in the section headed "Underwriting" of this prospectus
"**Issuing Mandate**"	the general unconditional mandate given to the Directors by the shareholders of the Company relating to the issue of new Shares, further details of which are contained in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 25 May 2007" in Appendix V to this prospectus
"**Kingly Capsule**"	廣東開平金億膠囊有限公司 (Guangdong Kaiping Kingly Capsule Co Limited*), a wholly foreign-owned enterprise established in the PRC on 23 September 1997 and a member of the Group which is wholly-owned directly by Bear World
"**Latest Practicable Date**"	28 May 2007, being the latest practicable date for the purposes of ascertaining of certain information in this prospectus
"**Listing**"	the listing of, and dealings in, the Shares on the Main Board of the Stock Exchange

"**Listing Date**"	the date expected to be on or before 15 June 2007, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"**Listing Committee**"	the Listing Committee of the Stock Exchange
"**Listing Rules**"	the Rules Governing the Listing of Securities on the Stock Exchange
"**Lynbond**"	Lynbond International Limited (富仕邦國際有限公司), a company incorporated with limited liability in Hong Kong on 5 November 1999 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Group
"**Mr Choy**"	Choy Kam Lok (蔡金樂), the Chairman of the Group and an executive Director
"**Mr Leung**"	Leung Wing Hon (梁永康), an executive Director of the Company
"**Mr Tsoi**"	Tsoi Hoi Shan (蔡海山), the son of Mr Choy and Mrs Choy and one of the discretionary objects of The Choy Family Trust
"**Mrs Choy**"	Ning Kwai Chun (寧桂珍), the spouse of Mr Choy and one of the discretionary objects of The Choy Family Trust
"**Ms Choy**"	Choy Siu Chit (蔡紹哲), a non-executive Director of the Company, the daughter of Mr Choy and Mrs Choy and one of the discretionary objects of The Choy Family Trust
"**Ms Peng**"	Peng Wei (彭韙), an executive Director of the Company
"**Ms Shum**"	Shum Fun (沈歡), the spouse of Mr Tsoi and one of the discretionary objects of The Choy Family Trust
"**NDRC**"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"**New Rural Cooperative Medical Scheme**"	新型農村合作醫療制度, the rural medical care and mutual assistance scheme operated by the PRC Government, which provides farmers and their family members who voluntarily participate with partial coverage of the costs of certain medicine listed in the Insurance Catalogue
"**New Shares**"	a total of 300,000,000 new Shares being offered by the Company under the Share Offer

"**Offer Price**"	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) of not more than HK$2.75, such price to be agreed upon by the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) on or before the Price Determination Date
"**Offer Shares**"	the Public Offer Shares and the International Placing Shares
"**Over-allotment Option**"	the option to be granted by the Selling Shareholder to the Global Coordinator subject to the terms and conditions of the International Placing Underwriting Agreement, pursuant to which the Selling Shareholder may be required to sell up to 45,000,000 Shares (representing 15% of the Shares initially being offered under the Share Offer) to cover over-allocations in the International Placing, details of which are described in the section headed "Structure of the Share Offer" of this prospectus
"**Pharmaceutical Industry Guidance Opinion**"	the Eleventh Five-Year Pharmaceutical Industry Guidance Opinion (醫藥行業十一五發展指導意見) issued by the NDRC in June 2006
"**PRC**" or "**China**"	People's Republic of China and except where the context otherwise requires, references in this prospectus to the PRC or China shall not include Hong Kong, Macau or Taiwan
"**PRC Government**"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
"**Price Determination Agreement**"	the agreement to be entered into among the Company and the Global Coordinator (on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
"**Price Determination Date**"	on or about 8 June 2007 at which time the Offer Price is determined, or such later time as the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) may agree, but in any event not later than 13 June 2007
"**Principal Share Registrar**"	Butterfield Fund Services (Cayman) Limited

"**Public Offer**"	the offer of the Public Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Share Offer") at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% of the Offer Price) on the terms and subject to the conditions set out in this prospectus and the related Application Forms
"**Public Offer Shares**"	the 30,000,000 Shares being initially offered for subscription pursuant to the Public Offer (subject to re-allocation as described in the section headed "Structure of the Share Offer" in this prospectus)
"**Public Offer Underwriter**"	the underwriter listed in the paragraph headed "Underwriting – Public Offer Underwriter" under the section headed "Underwriting" of this prospectus
"**Public Offer Underwriting Agreement**"	the underwriting agreement dated 1 June 2007 relating to the Public Offer and entered into by, among others, the Company, the Global Coordinator and the Public Offer Underwriter, as further described in the section headed "Underwriting" of this prospectus
"**QIBs**"	qualified institutional buyers within the meaning of the Rule 144A
"**Receiving Banker**"	HSBC
"**Regulation S**"	Regulation S under the U.S. Securities Act
"**Reorganisation**"	the reorganisation arrangements undergone by the Group in preparation for the Listing as described in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus
"**Repurchase Mandate**"	the general unconditional mandate to repurchase Shares given to the Directors by the sole shareholder of the Company, further details of which are contained in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 25 May 2007" in Appendix V to this prospectus
"**RMB**" or "**Renminbi**"	Renminbi, the lawful currency of the PRC
"**Rule 144A**"	Rule 144A under the U.S. Securities Act

"**Sale Shares**"	a total of 45,000,000 Shares which may be sold by the Selling Shareholder pursuant to the exercise of the Over-allotment Option
"**SDA**"	the State Drug Administration of the PRC, the predecessor of the SFDA prior to 16 April 2003
"**Selling Shareholder**"	BVI Intermediate Company
"**SFC**"	the Securities and Futures Commission of Hong Kong
"**SFDA**"	the State Food and Drug Administration of the PRC which for the purpose of this prospectus, includes its predecessor, the SDA established on 16 April 2003
"**SFO**"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"**Share Offer**"	the Public Offer and the International Placing
"**Share Option Scheme**"	the share option scheme conditionally adopted by the Company on 25 May 2007, the principal terms of which are summarised in the section headed "Share Option Scheme" in Appendix V to this prospectus
"**Shares**"	shares in the share capital of the Company, with par value of HK$0.01 each, for which application has been made for listing, and permission to deal, on the Stock Exchange, and which are subscribed for and traded in Hong Kong dollars
"**sino-foreign equity joint venture enterprise**"	a sino-foreign equity joint venture enterprise established in the PRC pursuant to the "PRC Sino-foreign Equity Joint Venture Law" and the "PRC Sino-foreign Equity Joint Venture Law Implementation Regulations"
"**State Basic Medical Insurance Scheme**"	國家基本醫保制度, the medical insurance scheme operated by the PRC Government which employers in urban areas in the PRC are required to subscribe to on behalf of their employees to provide them with partial coverage of the costs of medicine listed in the Insurance Catalogue

"**Stock Borrowing Agreement**"	a stock borrowing agreement to be entered into between HSBC and the Selling Shareholder pursuant to which the Selling Shareholder will agree to lend 45,000,000 Shares to HSBC on terms set out therein, further details of which are set out in "Information about this prospectus and the Share Offer – Over allotment and Stabilisation" of this prospectus
"**Stock Exchange**"	The Stock Exchange of Hong Kong Limited
"**subsidiaries**"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"**Takeovers Code**"	The Codes on Takeovers and Mergers and Share Repurchases
"**Team Crown**"	Team Crown Trading Limited (金福來貿易有限公司), a company incorporated with limited liability in Hong Kong on 30 May 1995 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Group
"**Team Profit Management**"	Team Profit Management Limited (金峰達管理有限公司), a company incorporated with limited liability in Hong Kong on 15 February 1996 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Group
"**The Choy Family Trust**"	a discretionary trust established by the settlement deed dated 7 February 2007 and made between Mr Choy (as settlor) and DBS Trustee H.K. (Jersey) Limited (as trustee) and whose discretionary objects include members of the Choy Family (other than Mr Choy)
"**Track Record Period**"	the three years ended 31 December 2004, 2005 and 2006, respectively
"**Underwriters**"	the Public Offer Underwriter and the International Placing Underwriters
"**Underwriting Agreements**"	the Public Offer Underwriting Agreement and the International Placing Underwriting Agreement
"**United Laboratories (BVI) Group**"	The United Laboratories (Hong Kong) Group Limited (聯邦製藥(香港)集團有限公司), a company incorporated with limited liability in the BVI on 18 August 1992 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Holding

"**United Laboratories (BVI) Holding**"	The United Laboratories (Hong Kong) Holding Limited (聯邦製藥(香港)控股有限公司), a company incorporated with limited liability in the BVI on 10 October 1995 and a member of the Group which is wholly-owned directly by the Company
"**United Laboratories Chengdu**"	聯邦制藥(成都)有限公司 (The United Laboratories (Chengdu) Co. Ltd.*), a wholly foreign-owned enterprise established in the PRC on 11 June 2003 and a member of the Group which is wholly-owned directly by United Laboratories Hong Kong
"**United Laboratories Hong Kong**"	The United Laboratories, Limited (聯邦製藥廠有限公司), a company incorporated with limited liability in Hong Kong on 25 May 1976 and a member of the Group which is wholly-owned directly by United Laboratories (BVI) Group
"**United Laboratories Zhuhai**"	珠海聯邦制藥股份有限公司 (The United Laboratories Limited Zhuhai*), a joint stock limited liability company established in the PRC on 3 July 1993 and a member of the Group which is directly owned as to 49.5% by Bear World, as to 46% by Zhuhai Kangzhile, as to 3% by Zhuhai Jindefu and as to 1.5% by Zhongshan Jinyi Food
"**United Laboratories Zhuhai (Zhongshan Branch Company)**"	珠海聯邦制藥股份有限公司中山分公司 (United Laboratories Zhuhai (Zhongshan Branch Company)*), a branch company established by United Laboratories Zhuhai, but which does not itself have legal person status
"**U.S.**" or "**United States**"	United States of America
"**U.S. Securities Act**"	the Unites States Securities Act of 1933, as amended and the rules and regulations promulgated thereunder
"**US dollars**" or "**US$**"	United States dollars, the lawful currency of the United States
"**White Form eIPO**"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of the White Form eIPO Service Provider, www.eipo.com.hk
"**White Form eIPO Service Provider**"	the White Form eIPO service provider designated by the Company, as specified on the designated website www.eipo.com.hk

"**wholly foreign-owned enterprise**"	a wholly foreign-owned enterprise established in the PRC pursuant to the "PRC Wholly Foreign-owned Enterprise Law" and the "PRC Wholly Foreign-owned Enterprise Law Implementation Regulations"
"**WTO**"	World Trade Organisation
"**Zhongshan Jinyi Food**"	中山金億食品有限公司 (Zhongshan Jinyi Food Co. Ltd.*), a wholly foreign-owned enterprise established in the PRC on 24 July 1998 and a member of the Group which is wholly-owned directly by Bear World
"**Zhuhai Jindefu**"	珠海市金德福企業策劃有限公司 (Zhuhai Jindefu Enterprise Planning Company Limited*) (formerly known as 珠海市金德福有限公司 (Zhuhai Jindefu Company Limited*), a company established with limited liability in the PRC on 16 May 2001 and a member of the Group which is wholly-owned directly by Zhuhai Lebang
"**Zhuhai Kangzhile**"	珠海市康知樂醫藥有限公司 (Zhuhai Kangzhile Pharmaceutical Company Limited*), a company established with limited liability in the PRC on 10 June 1999 and a member of the Group which is wholly-owned directly by Zhuhai Jindefu
"**Zhuhai Lebang**"	珠海樂邦制藥有限公司 (Zhuhai Lebang Laboratories Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC on 24 December 2001 and a member of the Group which is wholly-owned directly by Bear World
"**Zhuhai Wanbang**"	珠海市萬邦藥業有限公司 (Zhuhai Wanbang Pharmaceutical Company Limited*), a company established with limited liability in the PRC on 23 December 2003 and a member of the Group which is directly owned as to 75% by United Laboratories Zhuhai and as to 25% by Zhuhai Lebang
"***%***"	per cent

* *English translation of company name for identification purpose only*

Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option. See the section headed "Underwriting" in this prospectus.

This glossary of technical terms contains terms used in this prospectus in connection with the Group. As such, these terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"**antibiotics**"	a substance, such as penicillin or streptomycin, produced by or derived from certain fungi, bacteria and other micro-organisms that can destroy or inhibit the growth of other micro-organisms and which is widely used in the prevention and treatment of infectious diseases
"**bulk medicine**"	particular substances or compounds used for the provision of pharmacological action in the production of pharmaceutical products, and for the purpose of the Group's production, the mid-stream substance for the production of down-stream finished products
"**CAGR**"	compound annual growth rate
"**capsules**"	solid preparations filled into capsule casings or sealed in soft capsules, which are made of medical substance or together with supplements
"**cephalosporins**"	a group of semi-synthetic antibiotics which contains a side-chain molecular structure derived from 7-ACA
"**Certificate for Manufacturer**"	the certificate issued by the Pharmacy and Poisons (Manufacturers Licensing) Committee under the Pharmacy and Poisons Board of the Hong Kong Government which certifies that a manufacturer can meet with the requirements of good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation and which sets out the types of products which the manufacturer is authorised to produce
"**Certificate of Drug/Product Registration**"	the certificate issued by the Pharmacy and Poisons Board of the Hong Kong Government which is required in connection with the sale, offering for sale, distribution or possession for the purpose of sale, distribution or other use of any pharmaceutical product in Hong Kong
"**Certificate of New Medicine**"	the certificate (新藥證書) issued by the SFDA with respect to any pharmaceutical product that has not previously been sold in the PRC at the time when the application for the certificate was made

"**diabetes**"	the metabolic disorders disease that is acquired due to absolute or comparative insufficiency of insulin or excessive glucagon of antagonistic insulin
"**Drug Manufacturing Certificate**"	the certificate (藥品生產許可證) issued by the SFDA at provincial level which any enterprise engaged in the manufacture of pharmaceutical products in the PRC is required to obtain pursuant to the "Drug Administration Law" and the "Implementation Regulations of the Drug Administration Law"
"**Drug Operation Certificate**"	the certificate (藥品經營許可證) issued by the SFDA at provincial or designated municipal or county level which any enterprise engaged in the distribution or sale of pharmaceutical products in the PRC, whether on a wholesale or retail basis, is required to obtain pursuant to the "Drug Administration Law" and the "Implementation Regulations of the Drug Administration Law"
"**Drug Registration Approval**"	the certificate (藥品註冊批件) issued by the SFDA which any pharmaceutical manufacturing enterprise proposing to engage in the commercial production of any pharmaceutical product in the PRC is required to obtain before commencing production of such product
"**finished products**"	pharmaceutical products in such form that is ready for immediate consumption
"**GMP**" or "**Good Manufacturing Practice**"	the basic principles for the manufacture and quality management of pharmaceutical products prescribed by the SDA
"**government-mandated price controls**"	control over the retail price in the PRC of finished products imposed by the PRC Government, and products subject to "government-mandated price controls" include: (i) products listed in the Drugs Pricing Catalogue and/or the Insurance Catalogue; (ii) products whose retail ceiling prices are subject to price reductions; and/or (iii) products having individual pricing (further details of which are set out in the paragraph headed "Price controls" in the section headed "Regulatory Framework" in this prospectus")

"**granules**"	dry granular preparations with certain granularity made of proper supplements, and mainly divided into soluble granules (generally called granules), suspension granules, effervescent granules, intestinal ingestion granules, sustained release granules and controlled release granules for oral consumption
"**injection**"	sterile solution injection, emulsion injection or suspension injection which can be applied by way of intramuscular injection, intravenous injection or intravenous drip
"**intermediate products**"	the core chemical components, such as 6-APA, 7-ACA and T-octylammonium clavulanate, and for the purpose of the Group's production, the up-stream substance for the production of mid-stream bulk medicine
"**Licence for Manufacturer**"	the certificate issued by the Pharmacy and Poisons (Manufacturers Licensing) Committee under the Pharmacy and Poisons Board of the Hong Kong Government which specifies the premises at which a licensed manufacturer may carry on its production activities
"**OTC medicine**"	medicine that may be sold to retail customers without prescription from a licensed medical practitioner
"**prescription medicine**"	medicine that may only be sold to retail customers with prescription from a licensed medical practitioner
"**6-APA**"	6-amino penicillin acid, being the parent nucleus for penicillin
"**7-ACA**"	7-amino cephalosporanic acid, being the parent nucleus for cephalosporins type antibiotics
"**β-lactamase inhibitors**"	β-lactamase which has the effect of inhibiting the growth of various plasmids and chromosome media and hence, is capable of preventing certain β-lactamase antibiotics from being destroyed by enzymes, thereby maintaining its anti-bacterial effect

Investors should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risks in connection with an investment in the Group, certain of which are not typically associated with investing in equity securities of companies from Hong Kong or other economically advanced jurisdictions.

The Directors believe that there are certain risks involved in the Group's operations. They can be categorised into: (i) risks relating to the Group's industry; (ii) risks relating to the Group; (iii) risks relating to the PRC and (iv) risks relating to the Share Offer. Additional risks and uncertainties not presently known to the Directors, or not expressed or implied below, or that the Directors currently deem immaterial, may also adversely affect the Group's business, operating results and financial condition in a material respect.

RISKS RELATING TO THE GROUP'S INDUSTRY

As there has been a consistent history of price controls being imposed, similar controls may continue to be imposed in the future.

Like other pharmaceutical companies in the PRC, the Group's financial results are highly sensitive to certain PRC Government regulations, particularly those governing the Group's finished products which are subject to government-mandated price controls and, separately, the Group's finished products which PRC Government medical schemes will partially reimburse patients for the cost thereof. Price ceilings have been lowered in 2004, 2005 and 2006 over the Track Record Period (on a different mix of products each time). If these price ceilings or other regulations were to change again in the future in a way unfavourable to the Group, its business and financial results may be harmed.

The prices of certain pharmaceutical finished products sold in the PRC which are listed in the Drugs Pricing Catalogue and/or the Insurance Catalogue are subject to price controls set by government regulators at either the national or provincial level. In the year ended 31 December 2006, 39 of the Group's 52 finished products in production in the PRC and all of the four finished products in production in Hong Kong (three of which were also in production in the PRC), sales of which represented 32.8% of the Group's total turnover for the year ended 31 December 2006, were subject to government-mandated price controls, while currently (and historically) the Group's bulk medicine and intermediate products have not been directly subject to such price controls when sold in the PRC. These subject finished products include the Group's two biggest selling antibiotics finished products over the Track Record Period, ampicillin capsules (250mg) and amoxicillin capsules (250mg), sales of which in the PRC together accounted for 15.2%, 17.3% and 14.1% of the Group's total turnover during the three years ended 31 December 2004, 2005 and 2006. Over the Track Record Period, PRC regulators lowered ceilings applicable to certain of the Group's pharmaceutical products in 2004, 2005 and 2006 (on a different mix of products each time), including some of the Group's major products such as amoxicillin capsules and ampicillin capsules. Since May 1998, the PRC Government has imposed price reductions on the retail ceiling prices of various pharmaceutical products on over 20 occasions and on a different mix of products each time. According to the NDRC, there has been continuous decrease in prices of pharmaceuticals in the PRC between 1996 and 2005 resulting in the purchase price of antibiotics finished products paid by sample hospitals during that period decreasing by approximately 50% cumulatively. The decrease

was particularly significant in 2001, 2002, 2004 and 2005, years during which the PRC Government imposed price cuts on antibiotics finished products. As there has been a consistent history of price controls being imposed, similar controls may continue to be imposed in the future.

The Group's products that are subject to price controls cannot be sold at a retail price higher than the applicable government-mandated price ceiling without express government permission, which permission is called "individual pricing". Because "individual pricing" applies to retail sales, the Group benefits indirectly therefrom, as it sells its finished products to distributors, not to retail customers, but may sell to distributors at a higher price if the retail price can be set higher. And because of price competition in the industry, the Group (and, the directors believe, the Group's competitors as well) sells certain of its products at prices below these government-mandated price ceilings and below "individual pricing".

Therefore, with regard to products subject to such price controls, the Group has limited ability to pass on any increased production costs to customers or to set prices based on supply and demand. If the PRC Government continues to expand the number of products subject to price ceilings, and those ceilings were then to cover more of the Group's pharmaceutical products not currently subject to such price ceilings, or if existing price ceilings on products already covered were to be lowered again, or if the Group's cost of production of any such products were to increase so as to exceed any applicable price ceilings, the Group may be required to apply for individual pricing on such products, or otherwise may have to discontinue production of such products. There can be no assurance that the Group will be granted any such individual pricing. Depending on the financial significance of any such products to the Group, any such further price controls reductions could lead to a decline in the Group's profitability or could otherwise adversely affect the Group's total turnover, its profit or net profit margins.

Effective in January 2002, the Group was, however, granted individual pricing for five of its antibiotics finished products that are otherwise subject to these price ceilings, including two products of amoxicillin capsules, amoxicillin granules, ampicillin capsules and amoxicillin tablets, which (other than amoxicillin tablets) were in production as at 31 December 2006. The retail price ceilings for these five products were subsequently lowered. The Group continued to be granted individual pricing for these five products, though at new individual prices lower than they were allowed in 2002. The Group was also granted individual pricing for another product of ampicillin capsules in August 2006. Sales in the PRC of the five products in production by the Group that were subject to individual pricing as at 31 December 2006 together accounted for 21.9%, 24.6% and 20.8% of the Group's total turnover and accounted for 46.8%, 54.9% and 53.6% of the Group's total turnover for finished products and capsule casings during the years ended 31 December 2004, 2005 and 2006. Price competition and market forces limit the Group's ability to charge a price much higher than the applicable price ceiling even for products that have been granted "individual pricing", however. When (and if) the price ceilings applicable to these products are changed again, the Group will have to apply again to renew any "individual pricing" applicable thereto and the level of individual pricing granted to the Group on these five products may then be lowered. If the prices at which the Group is allowed to charge on these products are substantially lowered in the future, the Group's financial results may be harmed.

The Group operates in a highly competitive industry characterised by significant price competition. The Group may not be able to continue to sell an increasing volume of its products to partly mitigate the impact of this pricing pressure on its total turnover.

The pharmaceutical industry in the PRC is highly competitive. In recent years, the pharmaceutical industry in the PRC has been characterised by falling profit margins due to intense price competition (or, in some cases, reduced government-mandated price ceilings on some products), rising raw materials costs (which therefore may not be able to be passed on entirely to customers), new or higher quality standards mandated by regulators and expected by consumers and rising competition among domestic manufacturers who seek to enter new geographical markets and/or manufacture more pharmaceutical products in response to falling price ceilings imposed by PRC regulators on selected pharmaceutical products. Increases in the Group's turnover derived from sales of antibiotics finished products and bulk medicine during the Track Record Period have primarily been driven by increased unit production and sales, which offset generally decreasing average selling prices of these products over the Track Record Period. If the Group is unable to continue to produce and sell an increasing volume of its products, or to develop and sell new or higher quality products, such as the intermediate products of which it began production for sale to third party customers in 2005, significant intensification of price competition by competitors could adversely affect the Group's total turnover, profit or profit margins.

For the years ended 31 December 2004, 2005 and 2006, the Group's net audited profit for the year was HK$149.4 million, HK$132.9 million and HK$173.8 million respectively. For the years ended 31 December 2004, 2005 and 2006, the Group's net profit margins were 12.4%, 7.7% and 8.4%, respectively. These decreased net profit margins for the years ended 31 December 2005 and 2006 when compared to that for the year ended 31 December 2004 were primarily due to the reasons discussed in the paragraph above and to the fact that the Group derived an increasing majority of its total turnover over the Track Record Period from sales of surplus bulk medicine and intermediate products, which have lower profit margins than do the Group's finished products. If these trends continue, the Group's net profit margins may continue to fall.

The Group faces competition when it entered in tender processes or from other competitors, including those who may have greater financial, technical, manufacturing and other resources than the Group.

Hospitals in the PRC implement collective tender processes for the purchase of medicine listed in the Insurance Catalogue and medicine that are consumed in large volumes and commonly prescribed for clinical use. If the Group is unable to win purchase contracts through the collective tender processes in which the Group decides to participate, the Group will lose market share to its competitors, and the Group's revenue and profitability will be adversely affected.

Some of the Group's existing and potential competitors may have greater financial, technical, manufacturing and other resources than the Group does. These competitors may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than the Group can.

Like other PRC-based pharmaceutical manufacturers, the Group's production plants process certain hazardous materials that subject it to operational risks which could, if realised, adversely affect the Group's financial conditions.

Like other PRC-based pharmaceutical manufacturers, the Group's operations involve the production of certain chemicals and the storage, transportation and disposal of related raw materials, products and waste materials, which are subject to certain hazards including fires, explosions, chemical spills, storage tank leaks, severe weather and natural disasters, mechanical failure, unscheduled downtime, transportation interruptions and discharges or releases of toxic or hazardous substances or gases.

These hazards can cause personal injury and loss of life, catastrophic damage to or destruction of property and equipment and environmental damage, and may result in a suspension of operations and the imposition of civil or criminal penalties. The Group could become subject to environmental claims brought by governmental entities or third parties. The loss or shutdown over an extended period of operations at any of the Group's major production plants would have a material adverse effect on the Group.

There is no assurance that the Group's existing products will continue to be included or new products developed by the Group will be included in the Insurance Catalogue.

Because of the price sensitivity of consumers in general in the PRC, the Directors believe that pharmaceutical companies in the PRC in general are able to sell more of their products and generate greater sales revenue therefrom when these products are listed in the Insurance Catalogue. All pharmaceutical products listed in the Insurance Catalogue are covered by either the State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme, enabling patients to seek partial reimbursement (the percentage of which varies in different regions in the PRC) of the costs thereof. If the Insurance Catalogue were revised in the future to omit any of the Group's finished products currently included or new products developed by the Group, especially any of those whose sales account for a material portion of the Group's total turnover, its business and financial results may be harmed.

Pharmaceutical manufacturers in the PRC and Hong Kong, including the Group, require a number of licences to operate in the PRC and Hong Kong and are subject to government regulations in the PRC, Hong Kong and elsewhere, which requirements and regulations increase costs, delay time to market and could prevent entirely the manufacture and sale of pharmaceutical products.

The Group, like all pharmaceutical manufacturers based in the PRC, is required to obtain certain licences from national, provincial and municipal regulators, including, among other licences, a Drug Manufacturing Certificate (藥品生產許可證) for each location of production plants. Additionally, current PRC regulations require the Group pharmaceutical manufacturers to obtain a GMP certificate to manufacture pharmaceutical products. Likewise, in Hong Kong, the Group is required by Hong Kong laws to obtain certain licences and registration qualifications in relation to the production, sales and export of its products. The Group could be legally barred from carrying on its business should it fail to obtain or maintain any of such licences or GMP certificates, which could have a material adverse effect on the Group's business, operations and financial results.

The Group must also comply with a broad range of regulatory controls on the testing, approval, manufacturing and marketing of many of its products in the PRC and Hong Kong that affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so. If these regulatory controls were to become even more strict in the future, the Group's costs could increase and the time to market of its products could be further delayed. The SFDA and other regulatory authorities may not approve the products that the Group develops and even if the Group does obtain regulatory approvals, such regulatory approvals may be subject to limitations on the indicated uses for which the Group may market a product, which may limit the size of the market for such product.

Stricter regulatory controls also heighten the risk of withdrawal by regulators of approvals previously granted, which could reduce the Group's turnover and even result in product recalls and product liability lawsuits.

If any batch of the Group's products were manufactured improperly or were contaminated, that could lead to direct financial losses for the Group and may tarnish its brand.

In recent years, pharmaceuticals manufactured by several companies have caused illness or even the deaths of end-users, sometimes because they were manufactured using incorrect chemicals and other times because they became contaminated. The companies involved were subject to substantial monetary fines and received substantial negative press coverage as a result. If any batch of the Group's products were manufactured improperly or were contaminated, that could lead to direct financial losses for the Group and may tarnish its brand. The Group might then be susceptible to product liability claims that may not be covered by insurance.

Rapid changes in the pharmaceutical industry may render the Group's products obsolete.

The pharmaceutical industry is characterised by rapid changes in technology, and emergence and/or mutation of viruses or bacteria causing diseases and illness that result in frequent emergence of new products, or that may render the Group's existing products obsolete or affect its viability and competitiveness. The Group's future success will largely depend on its ability to improve its existing products, diversify its product portfolio and develop new and competitively priced products which meet the requirements of the constantly changing market and are effective in treating new disease or illness. If the Group fails to respond to emerging diseases or illnesses and frequent technological advances by improving its existing products or developing new products in a timely fashion, or these products do not achieve a desirable level of efficacy or market acceptance, the Group's financial results may be harmed.

The Group's business is seasonal.

The Group's business is generally seasonal due to the seasonal cycles for the demand of antibiotic finished products. Historically, the Group's sales in the first and fourth quarters of each year (that is, in the winter season) are in general better when compared to the second and third quarters. Some of the costs of the Group are fixed and cannot be adjusted for seasonality, thus its operating results may fluctuate from period to period.

The Group is subject to environmental regulations and may be exposed to liability and potential costs for environmental compliance.

The Group is subject to the PRC laws and regulations regarding the release of effluent water and solid waste during its manufacturing processes. The Group is required to obtain certain clearances and authorisations from government authorities for the treatment and disposal thereof. Any violation of these regulations may result in substantial fines, criminal sanctions, revocation of operating permits, shutdown of its facilities and obligation to take corrective measures. The cost of complying with current and future environmental protection laws and regulations, and liabilities which may potentially arise from the discharge of effluent water and solid waste, may materially adversely affect the Group's business, financial condition and results of operations.

In the future, the PRC Government may adopt more stringent environmental regulations and there is no assurance that the Group will be at all times in full compliance with these regulatory requirements. As a result, the amount and timing of the Group's future environmental expenditures may vary substantially from those currently anticipated. If there is any unanticipated change in the environmental regulations, the Group may need to incur substantial capital expenditures to install, replace, upgrade or supplement its equipment or make operational changes in order to comply with new environmental protection laws and regulations. If such costs become prohibitively expensive, the Group may be forced to modify, curtail or cease certain of its business operations.

RISKS RELATING TO THE GROUP

Any reduction in turnover from the sale of its two biggest-selling individual products could materially harm the Group's financial results.

Turnover from sales of the Group's two largest selling individual products, ampicillin 250mg capsules and amoxicillin 250mg capsules, each antibiotics finished products, accounted for 15.2%, 17.3% and 13.9% of the Group's total turnover during the three years ended 31 December 2004 and 2005 and 2006, respectively. If the Group's turnover derived from sales of these products were to fall in the future, either because of continued drop in their average selling prices (whether due to ongoing price competition or further reduction or extension of government-mandated price ceilings) or because the Group was not able to continue to manufacture or sell the same number of units of these products, the Group's financial results would be harmed. Indeed, the Group's turnover from sales of its amoxicillin 250 mg capsules has fallen over the Track Record Period, as its average selling price generally decreased and the Group sold fewer units thereof.

Recent significant increases in sales outside the PRC and sales of intermediate products may not continue.

During the year ended 31 December 2006, 21.4% of the Group's total turnover was derived from sales outside the PRC, whereas such sales were 12.3% of its total annual turnover for the year ended 31 December 2005. Products sold to customers outside the PRC generally have higher selling prices than inside the PRC. As a result, the Group's net profit margin for the year ended 31 December 2006, was higher than it may have been if its sales outside the PRC had not increased as a percentage of total turnover during this period. There can be no assurance that the Group's sales outside of the PRC will continue to increase at this rate, or at all, in the future. Additionally, turnover from sales of intermediate products during the year ended 31 December 2006 increased by HK$143.5 million compared to turnover derived from such sales during the year ended 31 December 2005 (as the Group only began sales of intermediate products in 2005). There can be no assurance that turnover from sales of its intermediate products will continue to increase at this rate, or at all, in the future. If the Group's sales of intermediate products and/or its sales outside the PRC were to fall in the future or not continue to grow in absolute terms and/or as a percentage of total turnover, the Group's financial results may be harmed.

The Group's production plant in Chengdu only began production for sale to third party customers in 2005. In addition to the industrial accident there in January 2006, the Group may experience further operational difficulties with the new processes, new equipment and related technology. Any similar disruptions or problems in the future may cause further disruptions to production and further financial losses.

The Group's production facilities in Chengdu began production for sale to third party customers in 2005. An explosion involving the extraction workshop engaged in the production of T-octylammonium clavulanate occurred there in January 2006, causing the death of two of the Group's workers. As a result, the production which was previously conducted at that particular filtration station was shut down for five days. This shutdown affected the Group's production of one of its intermediate products and consequently one of its highest margin antibiotics finished products (though it is currently sold in relatively low volume). Following an assessment by the insurance company, the Group obtained approximately RMB777,000 (equivalent to approximately HK$788,688) as insurance payment for its property loss resulted from the incident. This insurance payment fully compensated the Group only for certain direct financial losses associated with resultant damage to the plant.

If the Group were to suffer another industrial accident at this plant in the future, or if it continues to experience quality control problems there, its operations there may again be disrupted. Any such disruption may result in further direct financial losses at this plant and, because these intermediate products are also used by the Group to manufacture certain of its finished products, including its two biggest-selling products, any such disruption may affect production of the Group's antibiotics finished products as well, which may magnify the consequent commercial losses to the Group.

The Group faces competition for suitable personnel, which may make it difficult to recruit and retain employees.

The Group's success depends on its ability to attract and retain staff. In particular, it requires a significant number of capable and qualified personnel to fill technical, research and development and middle management positions in the PRC, and in the future may need to fill more of those positions. The Group may be unable to retain sufficient numbers of suitable employees for its existing production facilities or be unable to recruit additional employees for its expansion in Chengdu or elsewhere. If so, the Group may have difficulty operating its manufacturing facilities at their current levels or increasing them, which may hamper the Group's expansion plans and/or harm the Group's business. The Group may be required to hire less qualified personnel and train them internally, on the job.

The Group's marketing activities are critical to the success of its finished products, and if the Group fails to grow its marketing capabilities or maintain adequate spending on marketing activities, the market share of the Group's finished products and its brand name and product reputation would be adversely affected.

Most of the Group's finished products are branded generic antibiotics, as well as other pharmaceuticals and the success and lifespan of the Group's products are dependent on the Group's efforts in marketing them. The Group's marketing professionals regularly visit hospitals, clinics and pharmacies to explain the therapeutic value of the Group's pharmaceuticals and to keep health care professionals up to date as to any developments relating to the Group's finished products. The Group organises in-person product presentations and seminars for physicians and other health care professionals and participate in trade shows to generate market awareness of the Group's existing and new finished products. These various marketing activities are critical to the success of the Group's products. However, there can be no assurance that the Group's current and planned spending on marketing activities will be adequate to support the Group's future growth. Any factors adversely affecting the Group's ability to grow the its marketing capabilities or the Group's ability to maintain adequate spending on marketing activities will have an adverse affect on the market share of the Group's finished products and the brand name and reputation of the Group's finished products, which may result in decreased demand for the Group's finished products and negatively affect its business and results of operations.

The Group relies on independent third-party distributors for all sales of its finished products (and a portion of the sales of its bulk medicine to overseas customers) to end consumers. The Group may not be able to effectively manage its distribution network, and its reputation, business, prospects and brand may be materially and adversely affected by actions taken by its distributors.

As at 31 December 2006, the Group sells its finished products in the PRC to 183 independent third-party distributors (over whom the Group does not have ownership control), who subsequently make retail sales of those finished products, working with the Group's own sales network, to end customers. Since the Group sells its finished products to distributors (and a portion of its bulk medicine to overseas customers), not to the hospitals and other customers directly, the Group does not have direct control over its entire sales and distribution chain. This reliance over the sales and distribution chain operated through the distributors may give distributors some advantage when dealing with the Group. In making sales, the Group relies on distribution agreements that do not

restrict distributors from purchasing and promoting the Group's competitors' finished products. Furthermore, since the Group's distribution agreements are all short-term and can be cancelled by either side at will, there can be no assurance that the Group will be able to maintain relationships with its distributors. If any distributor were to materially reduce its orders with the Group or were to terminate entirely its business relationship with the Group, the Group's business may be adversely affected if the Group fails to locate alternative distributors.

The Group has limited ability to manage the activities of its distributors that the Group contracts to promote its finished products and brand name. The Group's distributors could sell the Group's products outside their designated territory, possibly in violation of the exclusive distribution rights of other distributors, fail to adequately promote the Group's products, which could have a material adverse effect on the Group's business, prospects and brand. Furthermore, the Group could be liable for actions taken by the Group's distributors, including any violations of applicable law in connection with the marketing or sale of the Group's products, including PRC rules and regulation relating to unfair competition.

If employees of the Group in the PRC were to engage in any business practice that may be in violation of any PRC law or regulations in an attempt to increase sales in the future, such employees, companies, their management who are directly responsible and other directly responsible persons may be subject to legal liability and the Group's business may be harmed.

The PRC pharmaceutical industry is highly regulated. If employees of companies in the Group in the PRC were to engage in any business practice that may be in violation of any PRC law or regulations, such employees, companies, their management who are directly responsible and other directly responsible persons may be subject to legal liability which may include fines and imprisonment sentences depending on the seriousness of the offence. In June 2006, the Group was fined RMB200,000 (equivalent to approximately HK$203,009) for offences committed by employees of the Group as a result of the provision of benefits to pharmaceutical distributors and hospital representatives. These employees did not act in accordance with the Group's internal guidelines. If any employees or agents of the Group were to pay bribes in the future, such employees and the Group itself may be subject to liability. If that were to occur, the Group's management may be distracted, the Group's brand may be tarnished and the Group itself may be subject to financial penalties, any of which may harm the Group's business.

The Group's brand name could be damaged if the Group were to be fined in the future for non-compliance of laws regulating the contents of advertisements in the PRC.

According to PRC anti-competition regulations, business operators may not, whether by means of commercials or otherwise, make false advertisements about the quality, use and performance etc. about their products in such a way that may confuse consumers. Enterprises found to be in breach of such regulations may be liable to penalties. PRC regulations that govern advertisements for medicine restrict the inclusion in such advertisements the curative rate of the relevant product, comparison of effects and safety with other medicine, as well as the quoting of the opinion of medical practitioners and industry experts in commercials. Breach of such regulations by operators of drugs may lead to fines above RMB10,000 (equivalent to HK$10,150) and below RMB200,000 (equivalent to HK$203,009). If the Group were to include any information about its products in their product packaging in breach of the applicable law and regulations in the PRC in the future, the Group may be subject to monetary penalties, which may negatively impact

its financial performance. Any such non-compliance may damage the Group's brand name in the eyes of institutional customers, such as pharmaceutical distributors or hospitals, or individual retail customers.

The Group's business may suffer if it is unable to obtain and defend intellectual property rights or if it does not gain access to the intellectual property rights of others.

Currently, in terms of finished products, as the Group is engaged in the manufacture and sale of generic antibiotics and other medicine, none of its products are protected by patent. The Group is in the process of applying for patent registration in respect of five products. There can be no assurance that patents will be granted in connection with any of the Group's currently pending or future applications or that such patents will be valid and of sufficient scope and strength to provide the Group with meaningful legal protection or any commercial advantage.

In addition, intellectual property protection may be unavailable or limited in the PRC or in other jurisdictions in which the Group does business. Furthermore, a substantial portion of the Group's know-how is not eligible for patent or comparable forms of intellectual property protection. To protect this type of information against access by competitors, the Group relies on trade secret law and frequently enters into confidentiality agreements with its employees and partners. These agreements may be unenforceable, however, and the remedies available to the Group for breaches may be inadequate. Likewise, the Group's competitors may gain access to the Group's know-how by lawful means, for example, by reverse engineering or by independently developing the same know-how, which would destroy any advantage that the Group's know-how may afford it.

The Group's competitive position may also suffer if competitors come up with products, development or manufacturing processes or know-how that is protected by patents, trade marks, licences or other forms of intellectual property protection. Technologies over which the Group's competitors hold intellectual property rights may either be unavailable to the Group or be available only on unfavorable terms. To gain access to such technologies, the Group sometimes enter into licensing arrangements with third parties. If the Group's licensing partners were to terminate the licences that the Group has obtained from them or if the Group is unable to obtain licences on commercially favourable terms in the future, its ability to develop, manufacture and market its present and future products may be impaired.

If the Group were to lose one of its largest customers, or particularly its largest customer, its business may be harmed.

For each of the three years ended 31 December 2004, 2005 and 2006, the Group's five largest customers, together, accounted for approximately 46.7%, 15.8% and 24%, and its largest customer accounted for approximately 30%, 4.4% and 8.4%, of its total sales, respectively (in both cases, after excluding all intra-group sales of intermediate products and bulk medicine). Of the five largest customers in the year ended 31 December 2006, the Group has had an established business relationship with two of them for over five years. If the Group were to lose one of its largest customers, or particularly its largest customer, its business may be harmed and there can be no assurance that the Group would be able to immediately locate another customer or customers, if ever, who would purchase a similar quantity of the Group's products and on similar terms.

Changes in payment practices have led to increasing debtor turnover days and creditor turnover days over the Track Record Period.

Payment practices of the Group's customers in the PRC have changed significantly in many respects over the Track Record Period. Among the changes has been a trend for customers of the Group (be they distributors or pharmaceutical manufacturers) to pay for their products later and later, and, relatedly, for some of them to pay with bills that are exchangeable for cash at banks at full face value only months later. The Group's turnover of trade and bills receivables has changed from 109.4 days in 2004 to 122.2 days in 2005 to 131.8 days in 2006. If this trend in the market practice were to continue or accelerate, the Group may be paid later (causing it to lose the further time value of money), its turnover days may increase further, it may experience cash flow shortages, some debts may become doubtful and have to be written off or customers may negotiate with the Group to pay only a discounted portion of long outstanding debts. Relatedly, the Group's suppliers have also allowed the Group to pay them, in general, later and later over the Track Record Period, resulting in increasing creditor turnover days during the Track Record Period. If the Group's creditors would begin to tighten their credit policies with the Group, the Group may be forced to pay them earlier which could in turn negatively impact the Group's cash flows. If any of these consequences were to result, the Group's operations and financial results may be harmed.

The Group's operating results may be adversely affected by the loss of the services of Mr Choy or other senior management.

The Group is dependent on its senior management, and Mr Choy in particular, for setting its strategic direction and managing its business, which are crucial to its success. These individuals are also very important because they maintain relationships with many of the Group's customers, distributors, research and development partners and regulators. The loss of the services of any of the Group's senior management, whether for health reasons or otherwise, could have a material adverse effect on its operations and profitability. The Group may incur additional expenses to recruit new personnel to replace them. In addition, any of the Group's executive officers or key research personnel may join a competitor or form a competing company. Each of the Group's executive directors and one non-executive director has entered into a deed of non-competition with the Group. However, if any disputes arise between any of the Group's executive directors or this one non-executive director and the Group, there can be no assurance, in light of uncertainties associated with the PRC legal system, of the extent to which any of these agreements could be enforced in the PRC.

If the Group fails to obtain all required certificates and regulatory approvals for production at its production workshops in its Hong Kong production plant which are currently not in operation, the Group's ability to expand the utilisation of the Hong Kong production plant may be adversely affected.

As at 31 December 2006, the Group has a total of eight production workshops at its production plant in Hong Kong, of which only two production workshops were in operation. The Group has obtained all the required certificates and licences for production of its four finished products which are currently being produced at the said two production workshops. If the Group is unable to obtain the requisite certificates and regulatory approvals to commence production in any of the remaining six production workshops which are not currently in operation, the Group's ability to expand the utilisation of the Hong Kong production plant may be adversely affected.

None of the Group's pharmaceutical products are patented and so other pharmaceutical manufacturers in the PRC and elsewhere may produce products similar to those of the Group.

Most of the Group's products are branded generic pharmaceuticals and none of the Group's products are patented or proprietary to the Group. While the Group protects specific formulations of its individual products as trade secrets, it can rely only on that secrecy (but not any other intellectual property rights therein) to protect its products. Other manufacturers (both inside and outside the PRC) have already produced and sold products similar to those of the Group. As a result, the Group has in the past faced (and may in the future continue to face) increasing pricing pressure and its business and profitability may be adversely affected. Although certain of the Group's generic products are subject to a protection, transition or monitoring period, once such protection, transition or monitoring periods expire, other manufacturers may obtain relevant production approvals and will be entitled to sell generic pharmaceutical products with similar formulae or production methods in the PRC. If other pharmaceutical companies sell pharmaceutical products that are similar to the Group's unprotected products or the Group's protected products for which the relevant protection, transition or monitoring period has expired, the Group may face additional competition and its business and profitability may be adversely affected.

Intellectual property rights associated with the 999 trade mark and other registered trade marks owned by the Group may be infringed in the future or may be alleged to infringe on the rights of third parties.

During the Track Record Period, most of the Group's products were sold under the 999 trade mark. The Directors believe that the 999 trade mark is crucial to the Group's corporate and market image in the PRC. Historically, the Group has not experienced any infringements of its 999 trade mark for sales of pharmaceutical products. However, there can be no assurances that there will not be infringement of the Group's brand name or registered trade marks or counterfeiting of the Group's products in the future. If counterfeit pharmaceuticals illegally sold under the Group's brand name result in adverse side effects to consumers, the Group may be associated with any negative publicity resulted from such incidents. In addition, consumers may buy counterfeit pharmaceuticals that are in direct competition with the Group's pharmaceuticals, which could have an adverse impact on the Group's business, sales revenues and results of operations.

While the Group seeks to protect its trade marks, which include the names of many of its key products, trade mark protection in the PRC consists primarily of a right to sue against infringing uses of a mark and, in order to be effective, requires extensive policing. If the Group fails to detect instances of infringement or if it does not succeed in defending its trade marks in court, its reputation with its customers and its ability to protect its trade marks in the future may be harmed. Further, the Group's trade mark may be alleged to infringe on the intellectual property rights of third parties. If the Group's use was therefore held to infringe, the Group may lose the right to use this mark. Because of the recognition of the brand in the PRC, the Group's sales may fall as a result and the Group's business and financial results would be harmed.

The Group's substantial leverage (and high gearing ratio) may affect its ability to expand, and any increase in interest rates may materially affect the Group's results.

As at 31 December 2006, the Group had outstanding bank loan obligations of HK$1,306.2 million and a total debts to total assets ratio or a gearing ratio of 39.5%. The Group may also incur new debt obligations to finance its operations. As a result, the Group may require a significant portion of cash flow to be allocated to service debt. This could impair its ability to make necessary capital expenditures, develop business opportunities or make acquisitions. There is no assurance that the business will generate sufficient cash flow from operations in the future to service its debt.

The Group's Hong Kong dollar-denominated borrowings carry interest at floating rates which will expose the Group to interest rate risk resulting from fluctuations in the relevant reference rates. Any such increase in interest expense may have an adverse effect on the Group's business, financial condition and results of operations. The Group does not currently have any arrangements to hedge its interest rate risk. If the Group decides to enter into such hedging arrangements, there can be no assurance that it will be able to do so on commercially reasonable terms or that these arrangements, if entered into, will protect it fully against interest rate risk.

If the Group were to breach loan covenants again in the future, its business may be negatively affected.

During the Track Record Period, the Group breached certain financial covenants (the "financial covenants") contained in the loan agreements entered into by the Group with one of its principal banks. Those financial covenants required that the gearing of the Group should not exceed a specified ratio and prohibited the pledge of certain assets of the Group. The portions of the amount outstanding under such loan agreements repayable one year from 31 December 2005 and 2006 were HK$134,533,000 and HK$42,238,000 respectively, and as a result of such breach were classified as current liabilities rather than non-current liabilities in the Group's balance sheet at the respective dates. Such non-compliance was subsequently waived by the bank. If the Group were to breach loan covenants in the future, there is no guarantee that the non-compliance will be waived by the lending bank, and the Group's business may be negatively affected.

Net current liabilities during the Track Record Period.

As at 31 December 2004, the Group's net current assets were HK$9.9 million . As at 31 December 2005, the Group's net current liabilities were HK$259.9 million, in significant part because it financed capital expenditures in those years (which resulted in non-current assets), particularly in connection with the construction of the Chengdu plant, partly with short-term bank debt. The Group has short-term loans for the purchases of fixed assets as a means to reduce finance costs. While the Group had net current assets of HK$5.1 million as at 31 December 2006, there can be no assurance that the Group will not have net current liabilities in the future. If adequate funds are not available, whether on satisfactory terms or at all, the Group may be forced to curtail its expansion plans. The Group's ability to meet its working capital needs by cash flow from operations will be affected by the demand for its products, which in turn may be affected by several other factors including economic downturns. To the extent that the Group does not generate sufficient cash flow from its operations to meet its present and future financial obligations, it may need to rely on external borrowings and securities offerings.

The Group's business depends heavily on the supply of certain raw materials; should the supply of raw materials decrease or the cost of those materials otherwise increase, the Group's business would be adversely affected.

Raw materials purchases accounted for 82.6%, 84.4% and 68.2% of the Group's total cost of goods sold for each of the three years ended 31 December 2004, 2005, and 2006, respectively. In order to manufacture its products, the Group must obtain sufficient quantities of high quality raw materials at acceptable prices and in a timely manner. For the three years ended 31 December 2004, 2005 and 2006, the Group's top five suppliers accounted for 31.8%, 38.1% and 32.6% respectively of the total value of its raw materials purchased by the Group. Should any of the Group's suppliers fail to supply sufficient quantities of raw materials of an acceptable quality or in a timely manner in the future, the Group may be unable to obtain them elsewhere. Otherwise the Group may be forced to obtain raw materials from different suppliers, who may require the Group to pay prices that are not commercially reasonable or who provide raw materials that are not of an acceptable quality. Any interruption in the Group's supply of raw materials could delay its production and delivery schedules, which may result in the loss of customers and revenue.

If the Group were to fail to comply with applicable regulations in jurisdictions outside the PRC, its sales there may be harmed.

During the three years ended 31 December 2004, 2005 and 2006, the Group's sales outside the PRC represented 9.9%, 12.3% and 21.4%, respectively, of the Group's total turnover during these periods. If the Group were to fail to comply with applicable regulations in jurisdictions outside the PRC, its sales there may be harmed.

If the Group were to fail to comply with applicable product standards in the PRC, its sales may be harmed.

In the PRC, there are several national standards applicable to pharmaceuticals, including standards set down by the SFDA and potential sample checks by the SFDA. If the Group were found to be in breach of any of these regulations, the Group may, among other possible penalties, be ordered to cease production and/or sale of its products, or lose its licences and permits related thereto. If that were to happen, the Group's turnover from sales in the PRC may be harmed. Additionally, the previous head of the SFDA has been removed from his post and is now being prosecuted for corruption in connection with his official duties. The SFDA announced on 15 January 2007 that all pharmaceuticals in the PRC currently registered with the SFDA as having met these standards will have to be re-registered in 2007. As of the date of this prospectus, it is not yet clear whether the SFDA will also institute new standards as part of this re-registration process, or whether the existing standards will continue to apply. Any such pharmaceuticals that are found not to meet these standards during this re-registration process will not be re-registered by the SFDA, and will, therefore, have to be withdrawn from the market until they are so re-registered, if ever. If any of the Group's pharmaceutical products, particularly any of its best-selling products, were to fail this re-registration process and then had to be withdrawn from the PRC market, the Group's business, reputation in the market place, and financial results may be harmed.

The Group's insurance may be insufficient to cover losses in the future.

The Group maintains property and work injury insurance, but cannot be fully insured against all potential hazards incidental to its business. This is because market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. If the Group were to incur a significant liability for which it was not fully insured, it could have a material adverse effect on the Group's financial condition.

The Group's future success depends on its ability to achieve and manage growth.

A principal component of the Group's strategy is to continue to grow by expanding production capacity and expanding its business in the geographical areas and markets where it is currently focused and into new geographical areas and markets. The Group's future growth will depend upon a number of factors, both within and outside of its control, including but not limited to its ability to manage expansion, its ability to obtain any required financing and its ability to achieve operational efficiencies. The Group may not successfully manage its growth or expand its operations at all. This could ultimately have a material adverse effect on its business, financial condition and results of operations.

The Group's success depends in part on its ability to successfully develop and commercialise new pharmaceutical products.

The Group's future results of operations depend in part on its ability to successfully develop and commercialise more generic and innovative pharmaceutical products. The Group must develop, test and manufacture such products. All of the Group's products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals. The development and commercialisation process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. The Group's business strategy includes collaborating with third parties for research and development of new products. Any failure of the Group's research partners to meet the required quality standards and timetables set in their research agreements with the Group, or the Group's inability to enter into additional research agreements with these research partners (or others) on terms acceptable to the Group in the future, may have an adverse effect on the Group's ability to develop new medicine and on its business prospects.

There is no assurance that the Company will declare dividends in the future.

United Laboratories Zhuhai declared dividends of RMB400 million (equivalent to approximately HK$406 million) to its then shareholders (being inter-group companies and Mr Tsoi) pertaining to the year ended 31 December 2005, which was recorded as an inter-group transfer and which did not result in any cash outflow from the Group. Details of the Company's dividend policy are set out in the paragraph headed "Dividends and working capital – Dividend" in the section headed "Financial Information" of this prospectus. There is no assurance that future dividends will be similar to historical dividends or will be declared at all, and potential investors should be aware that historical dividends will not be used as a reference or basis upon which future dividends may be determined. The declaration, payment and amount of any future dividends of the Company will be subject to the discretion of the Directors, and will depend upon, among other things, the Company's earnings, financial condition, cash requirements and availability of profits, the provisions of the articles of association of the Company and the Companies Law and other relevant factors.

RISKS RELATING TO THE PRC

A majority of the Group's assets are located in, and substantially all of the Group's revenue is sourced from, the PRC. Accordingly, the Group's results of operations, financial position and prospects are subject to a significant degree to the economic, political and legal developments of the PRC.

Changes in the economic and political environment in the PRC and policies adopted by the PRC Government to regulate its economy may adversely affect the Group's business, operating results and financial conditions.

Substantially all of the Group's operations are located in the PRC. The PRC's economy differs from the economies of most countries belonging to the Organisation for Economic Cooperation and Development in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the PRC's economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilisation of market forces in the development of the PRC's economy. Annual and five-year state plans are adopted by the PRC Government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the PRC's industrial output, in general, the PRC Government is reducing the level of direct control which it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production and management and a gradual shift in emphasis to a "market economy" and enterprise reform. There can be no assurance that the PRC Government will continue to pursue a policy of economic reform. The Group may not in all cases be able to capitalise on the economic reform measures adopted by the PRC Government.

The Group's operations and financial results could be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC Government, such as changes in laws and regulations (or the interpretations thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions. Furthermore, a significant portion of economic activities in the PRC are export-driven at present and, therefore, are affected by development in the economies of the PRC's principal trading partners and other export-driven economies.

The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to the Group.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

In order to promote its domestic pharmaceutical industry, the PRC had laws which gave sole manufacturing rights lasting not more than five years to domestic manufacturers that were the first to produce a given pharmaceutical product which has never been marketed in the PRC. Accordingly, certain pharmaceutical producers in the PRC, including the Group, were given effective protection over the manufacture of generic drugs that they had not developed. In line with its obligations under the WTO, the PRC reduced intellectual property protection for generic pharmaceutical products by enacting certain laws and regulations, including the Regulations for Implementation of the Drug Administration Law (中華人民共和國藥品管理法實施條例), the Administration of Registration of Pharmaceutical Procedures (藥品註冊管理辦法) and the Notice of the SDA regarding the Protection Period of the New Drugs Produced under Clinical Tests Approved before the Enactment of the Regulations for Implementation of the Drug Administration Law (國家藥品監管局關於《中華人民共和國藥品管理法實施條例》實施前已批准生產和臨床研究的新藥的保護期的通知). Under these laws, the definition of new drugs had been changed from "the first to manufacture" to "drugs that have not yet been sold inside the PRC", and the administrative protection system for drugs was abolished. Furthermore, according to the new drugs approval procedures, new drugs that have not yet been sold inside the PRC have to undergo a supervisory and testing period of not more than five years. As a result of this change, a number of the Group's pharmaceutical products lost their intellectual property protection and became subject to greater competition. There are still a number of products manufactured by the Group that may be considered generic by international standards but for which the Group still receives intellectual property protection to a certain extent if those products are still within the monitoring periods of their respective Certificates of New Medicine. Moreover, the Directors believe that the PRC Government is currently contemplating revising its intellectual property laws so as to reduce protection of other arguably generic products. If the PRC were to do so, the Group could face greater competition and its business may be harmed.

Change in the laws and regulations in the PRC relating to protection periods and monitoring periods governing new medicine registered in the PRC may lead to increased competition earlier than before, which may harm the Group's turnover and profitability.

In view of the changes in PRC regulations relating to the protection of new medicine as set out under the heading "PRC – Regulatory approval and registration required to be obtained for pharmaceutical products – Registration as a new medicine" in the section headed "Regulatory Framework" in this prospectus, the maximum period of exclusive production granted to enterprises which have acquired the Certificate of New Medicine and the approval for production will be reduced to five years from the original of twelve years. This regulatory change may result in the other PRC-based pharmaceutical manufacturers beginning production of the same medicine currently manufactured by the Group earlier than they would have been legally allowed prior to this change. If so, this reduced protection period and resulting increased, earlier competition may lead to further price-based competition and therefore reduced income or profitability from the sales by the Group of any such medicine.

The Group enjoyed a low enterprise income tax rate over the Track Record Period; going forward, this effective enterprise income tax rate may rise, which would harm the Group's profitability and results of operations.

Enterprises with operations in the PRC are generally liable to pay enterprise income tax at the rate of 33% on their taxable income except where laws, administrative regulations and relevant rules of the State Council provide for tax holidays. According to《外商投資企業和外國企業所得税法》(the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises) of the PRC which came into force on 1 July 1991, a foreign investment enterprise engaging in manufacturing business which has an operating term of over 10 years is exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operation, after setting off losses carried forward, and is entitled to a 50% relief from corporate income tax of the PRC for the following three years. Three of the Group's subsidiaries, United Laboratories Zhuhai, Zhuhai Lebang and Kingly Capsule, being foreign investment enterprises satisfying the qualifications for such exemption, enjoyed various lower effective enterprise income tax rates during the Track Record Period.

In accordance with《外商投資企業和外國企業所得税法實施細則》(Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises) of the PRC which came into force on 1 July 1991, United Laboratories Zhuhai (Zhongshan Branch Company), due to it being categorised as an Enterprise of Advanced New Technology (先進技術企業), was granted an extended benefit of enjoying a 50% relief from the 24% income tax rate that it was subject to during the three years ended 31 December 2003, 2004 and 2005, despite its entitlement to the general two-year full plus three-year 50% exemption (兩免三減) mentioned above had ended in the year ended 31 December 2002. The standard income tax rate applicable to United Laboratories Zhuhai (Zhongshan Branch Company) was 24% for the year ended 31 December 2006. The bulk medicine factory at the Sanzao base of United Laboratories Zhuhai, having made additional investment which exceeded 50% of its original registered capital, and because its production and operations can be differentiated from those of the Zhongshan Branch Company, has been granted the benefit of the two-year full plus three-year 50% exemption. Its income tax for foreign invested enterprises is entitled to a 50% exemption for 2002 to 2004 on a base rate of 15%. Further, the bulk medicine factory at the Sanzao base of United Laboratories Zhuhai is entitled, in 2005 to 2007, to enjoy the benefit of having its 50% exemption for income tax for foreign invested enterprises extended for three years. Due to the reason that an enterprise's qualification as an Enterprise with Advanced New Technology (先進技術企業) would be assessed in the first six months of the year following every applicable tax year, the bulk medicine factory at the Sanzao base of United Laboratories Zhuhai may pre-pay its income tax at a rate of 10% during season pre-payment (季度預繳). Zhuhai Lebang, being situated in a special economic region, was determined by the relevant tax authorities as having its first profitable year of operation in 2005, and was awarded the two-year full plus three-year 50% exemption mentioned above at a rate of 15% before discount for the period from 1 January 2005 to 31 December 2009. Kingly Capsule, being a foreign invested production enterprise whose applicable standard income tax rate is 24%, was determined by the relevant tax authorities as having its first profitable year of operation in 2001, and was awarded the two-year full plus three-year 50% exemption mentioned above at a rate of 24% before discount from 2001 to 2005.

The Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得税法》) will become effective officially on 1 January 2008. The new law imposes an unified income tax rate of 25% on foreign invested enterprises and domestic enterprises. Although all of the Group's domestic subsidiaries were established prior to the issue of the new tax law and are entitled to enjoy continuously the remaining income tax exemption above, however, the Group's subsidiaries in Mainland China will undertake a relatively heavy tax burden after the expiration of the income tax exemption, which will negatively affect the Group's profitability.

The Group's business could be affected by electricity shortages in the PRC.

The Group consumes substantial amounts of electricity in its manufacturing processes in the PRC. Certain parts of the PRC have been subject to electricity shortages. The Group's PRC production plants had in the past experienced a number of power shortages. There can be no assurance that in the future the Group's backup power systems will be completely effective in the event of a power shortage, particularly if that power shortage is over a sustained period of time. Any power shortage, brownout or blackout may have an adverse impact on the Group's business.

Fire, severe weather, flood or earthquake could cause significant damage to the Group's production plants in the PRC and disrupt its business operations.

Most of the Group's products are manufactured at its production plants located in the PRC. Fire fighting and disaster relief or assistance in the PRC is not well developed. Material damage to, or the loss of, the Group's production facility due to fire, severe weather, flood, earthquake or other acts of God or cause may not be adequately covered by proceeds of the Group's insurance coverage and could materially and adversely affect its business and operating results. In addition, any interruptions to the Group's business caused by such disasters could harm its business and operating results.

China's accession to the WTO may intensify competition in China's pharmaceutical industry.

Following China's accession to the WTO in 2001, it lowered tariffs on certain imported pharmaceuticals as part of its obligation under the WTO framework. The reduction or removal of tariffs on imported pharmaceutical products may make the price of such products more competitive with domestic pharmaceutical products. In addition, an increasing number of foreign pharmaceutical manufacturers may establish operations in China.

Because the percentage of the Group's turnover that has been derived from sales outside the PRC has grown over the Track Record Period, while almost all of the Group's expenses are denominated in Renminbi, the Group is increasingly exposed to foreign currency exchange rate fluctuations.

During the three years ended 31 December 2004, 2005 and 2006, the Group's sales outside the PRC totalled HK$118.6 million, HK$212.3 million and HK$445.8 million, respectively. These sales represented 9.9%, 12.3% and 21.4%, respectively, of the Group's total turnover during these periods. The Group's sales outside the PRC (except to the Hong Kong Government) are denominated all in U.S. dollars. Because substantially all of the Group's operations are based in the PRC, substantially all of the Group's expenses are denominated in Renminbi (though the Group does purchase equipment and raw materials using other currencies, especially the Euros and U.S.

dollars). The Group has not entered into any agreements to hedge its exchange rate exposure relating to the Euro or other currencies, and there can be no assurance that the Group will be able to enter into such agreements on commercially reasonable terms in the future.

Over the Track Record Period, the Group has realised most net foreign currency exchange gains. For the years ended 31 December 2004, 2005, and 2006, the Group recorded foreign currency exchange gains of HK$1.6 million, HK$1.9 million, and HK$1.0 million, respectively. If the percentage of Group's sales outside the PRC continues to increase, the Group's exposure to foreign currency exchange risk may increase as well. There can be no assurance that future exchange rate fluctuations between these (or other) foreign currencies and the Renminbi may not result in foreign currency exchange losses for the Group and if so, that any such losses will not have a material adverse effect on the Group's financial results.

The payment of dividends by United Laboratories Zhuhai to the Company is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits with regards to Zhuhai United Laboratories means its after-tax profits as determined under PRC GAAP, less any recovery of accumulated losses and allocations to statutory funds that it is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many respects from the calculation under HK GAAP. As a result, Zhuhai United Laboratories may not be able to pay any dividend in a given year to the Company if Zhuhai United Laboratories does not have distributable profits as determined under PRC GAAP, even if it has profits for that year as determined under HK GAAP. In that case, since the Company derives a majority of its profits from Zhuhai United Laboratories, the Group may not have sufficient distributable profits to pay dividends to its shareholders.

RISKS RELATING TO THE SHARE OFFER

The Company will continue to be controlled by the Choy Family, whose interests may differ from those of other shareholders.

Prior to completion of the Reorganisation and the Share Offer, 100% of the Shares in issue were beneficially held by the Choy Family. Immediately following the Share Offer, the Choy Family will, through The Choy Family Trust be interested in 75% of the Company's issued share capital assuming the Over-allotment Option is not exercised. As the Company's largest shareholder, and subject to its articles of association and applicable laws and regulations, BVI Intermediate Company (of which Mr Choy is the sole director) will be able to influence major policy decisions, including the Company's overall strategic and investment decisions, by:

- controlling the election of Directors and, in turn, indirectly controlling the selection of senior management;
- determining the timing and amount of dividend payments;
- approving annual budgets;

- deciding on increases or decreases in share capital;
- determining the size and timing of any issuances of new securities;
- approving mergers, acquisitions and disposals of the Group's assets or businesses; and
- amending the articles of association.

The interests of the Choy Family as the Company's majority shareholder could conflict with the interests of its other shareholders. Accordingly, the Choy Family may take actions (including, for example, an excessively high rate of dividend distributions) that favour its own interests and which may not be in the best interests of other shareholders.

There has been no prior public market for the Shares and liquidity may be low.

Prior to the Share Offer, there has been no public market for the Shares. The initial Public Offer price range to the public for the Shares were the result of negotiations among the Company, the Selling Shareholder and the Global Coordinator on behalf of the Underwriters. The Offer Price may differ significantly from the market price for the Shares following the Public Offer. The Company has applied for the listing of, and permission to deal in, its Shares on the Stock Exchange. However, being listed on the Stock Exchange does not guarantee that an active trading market for the Shares will develop, or that if it does develop, it will be sustained following the Public Offer, or that the market price of the Shares will not decline following the Public Offer.

The Share price may be volatile.

The price and trading volume of the Shares will be determined in the market place and may be highly volatile. Factors such as variations in the Group's revenue, earnings and cash flows, changes in or challenges to its business, announcements of new investments or acquisitions, the depth and liquidity of the market for the Shares, investors' perceptions of the Group and general political, economic, social and market conditions both globally and in the PRC or Hong Kong could cause the market price of the Shares to change substantially.

Shareholders' shareholding may be diluted as a result of future equity fundraising.

The Group may need to raise additional funds in the future to finance its expansion or for other reasons. If additional funds are raised through the issuance by the Company of new equity or equity-linked securities other than on a pro rata basis to existing shareholders, the percentage ownership of individual shareholders will decline. Any such new securities may have preferential rights or options that favour their holders over holders of the Shares, to the extent permitted by law, exchange rules and the Company's constituent documents.

It may be difficult to effect service of process upon or secure judgments against the Group, the Company or the respective directors and officers.

One of the Group's main operating subsidiaries, Zhuhai United Laboratories, is incorporated in the PRC. A majority of the Directors and senior personnel reside in the PRC and a substantial majority of the Group's assets are located within the PRC. It may not be possible for investors to

effect service of process upon those persons within the PRC or to enforce against those persons any judgments obtained from courts from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition or enforcement of civil judgments of the courts of Hong Kong or the United States or other western countries. Therefore, the recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be impossible. In addition, there is substantial doubt as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong or the United States or most other western countries.

There are risks associated with forward-looking statements.

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "may", "ought to", "should" or "will". Those statements include, among other things, the discussion of the Group's growth strategy and expectations concerning the Group's future operations, liquidity and capital resources. Purchasers of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although the Directors believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this "Risk Factors" section, many of which are not within the Group's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Group that its plans, or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. The Group does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as result of new information, future events or otherwise.

Certain facts and statistics contained in this prospectus have come from various publicly available sources whose reliability cannot be assumed or assured.

Facts and statistics in this prospectus relating to the PRC, its economy and the industry in which the Group operates within the PRC are derived from various publicly available official sources generally believed to be reliable. However, the Directors cannot guarantee the quality and reliability of such source material. These official facts and official statistics have not been independently verified by the Directors and therefore they make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere.

In all cases, you should give consideration as to how much weight or importance you should place on all such facts and statistics.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. The Directors confirm, having made all reasonable enquiries, in relation to any statement contained in this prospectus for which they accept responsibility, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer and the International Placing. For applicants in the Public Offer, this prospectus and the Application Forms contain the terms and conditions of the Public Offer.

The Share Offer comprises the Public Offer of initially 30,000,000 Public Offer Shares and the International Placing of initially 270,000,000 International Placing Shares subject to Over-allotment Option adjustment and reallocation on the basis described in the section headed "Structure of the Share Offer" in this prospectus.

The listing of the Shares on the Stock Exchange is sponsored by HSBC as Sponsor and the Share Offer is managed by HSBC as Global Coordinator. The Public Offer is fully underwritten by the Public Offer Underwriter pursuant to the Public Offer Underwriting Agreement. The International Placing Underwriting Agreement is expected to be entered into on or about 8 June 2007, subject to agreement on the Offer Price between the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters).

If, for any reason, the Offer Price is not fixed by agreement between the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters), the Share Offer will not proceed.

RESTRICTIONS ON THE SALE OF THE OFFER SHARES

Each person acquiring Public Offer Shares will be required to, or deemed by his acquisition of such Offer Shares to, confirm that he is aware of the restriction on offers and sales of the Offer Shares described below.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

United States

The Offer Shares have not been, and will not be, registered under the US Securities Act and, subject to certain exceptions, may not be offered, sold, pledged or otherwise transferred within the United States, except to QIBs in accordance with Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S. The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom. The Offer Shares may not be offered or sold to any person in the United Kingdom, other than to qualified investors as defined in section 86(7) Financial Services and Markets Act 2000 ("FSMA"), being (i) persons falling within Article 2.1(e)(i), (ii) or (iii) of Directive 2003/71/EC (the "Prospectus Directive"), which includes legal entities which are regulated by the Financial Services Authority (the "FSA") or entities which are not so regulated whose corporate purpose is solely to invest in securities and companies which are not small or medium sized enterprises for the purposes of Article 2.1(f) of the Prospectus Directive; (ii) investors registered on the register maintained by the FSA under section 87R FSMA; and (iii) an investor authorised by an European Economic Area State other than the United Kingdom to be considered as a qualified investor for the purposes of the Prospectus Directive or otherwise in circumstances which would not give rise to a breach of section 85 FSMA. In addition, this prospectus is distributed only to and is directed at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as "relevant persons"). The Offer Shares are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offer Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents. This prospectus should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. No application is being made for the Offer Shares to be admitted to trading on a regulated market in the United Kingdom.

Singapore

This prospectus has not been and will not be lodged with and registered by the Monetary Authority of Singapore in Singapore as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1, of Part XIII of the SFA. Accordingly, this prospectus and any other Share Offer document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchase, whether directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made in Singapore, other than: (a) pursuant to, and in accordance with the conditions of exemptions under Subdivision 4, Division 1 of Part XIII of the

SFA, particularly Sections 272B, 274 or 275 of the SFA to persons to whom the Offer Shares may be offered or sold under such exemptions and in accordance with any other conditions of all the other applicable provisions of the SFA, or (b) otherwise pursuant to and in accordance with any other conditions of any other applicable provisions of the SFA (including any re-sale restrictions under Section 276 of the SFA).

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (April 13, 1958: Law number 25: As amended from time to time) (the "SEL"). The Offer Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption available from the registration requirements of the SEL and in compliance with any other applicable requirements of Japanese law. Such other applicable requirements may include: (i) the reporting or other regulations under the Foreign Exchange and Foreign Trade Law of Japan; (ii) restrictions on transferability under the SEL (including the restriction on reselling that the Offer Shares may be re-sold as a whole but not in part); and (iii) regulations of the Japan Securities Dealers Association. As used in this paragraph, a resident of Japan means any individual residing in Japan and business offices located in Japan, including any corporation or other entity established under the laws of Japan.

Germany

The Offer Shares will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as of 1st July, 2005 and/or any other laws, rules or regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities. This prospectus is not being distributed in the context of, and does not constitute, a public offer, public advertisement or similar offer of securities in Germany within the meaning of Section 1 paragraph 1 and Section 2 no. 4 of the German Securities Prospectus Act as of 1st July, 2005. This document is not a prospectus (*Prospekt*) within the meaning of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and no prospectus, base prospectus (*Basisprospekt*), registration document (*Registrierungsformular*), securities note (*Wertpapierbeschreibung*), and/or summary note (*Zusammenfassung*) within the meaning of the German Securities Prospectus Act has been or will be (i) filed for approval by, registered with or notified to the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) or (ii) published within the Federal Republic of Germany. Therefore, this prospectus, copies of this prospectus or any other documents relating to the Offer Shares may not be distributed, and the Offer Shares may neither, directly nor indirectly, be offered or sold in the Federal Republic of Germany other than (i) to qualified investors as defined in Section 2(6) of the German Securities Prospectus Act, (ii) to other investors if they are required to purchase Offer Shares for a total amount of at least EURO 50,000.00, or (iii) otherwise to a limited group of investors as provided under Section 3 paragraph 2 no. 2 of the German Securities Prospectus Act (i.e., less than 100 investors other than qualified investors).

Belgium

The Offer Shares may not be offered or sold to the public in Belgium and no steps may be undertaken that could consist of a public offering of the Offer Shares in Belgium.

Neither the Offer nor this prospectus has been or will be submitted to the Belgian Banking, Finance and Insurance Commission (*"Commission bancaire, financière et des assurances"/"Commissie voor het Bank-, Financie- en Assurantiewezen"*) for approval, nor has the latter reviewed, approved or commented on its accuracy or adequacy or recommended or endorsed the purchase or subscription of the Offer Shares.

Accordingly, the Offer may not be advertised, the Offer Shares may not be offered or sold, and no Prospectus, information circular, brochure or similar document may be distributed, directly or indirectly, to any persons in Belgium other than "Qualified Investors" referred to in Article 10, §1, of the Act of 16 June 2006 on the public offer of investment instruments and the admission of investment instruments to trading on regulated markets.

This Prospectus is for the confidential use of the intended recipient only, and may not be reproduced, sent or used for any other purpose. In particular, it may not be used in connection with any offering or sale of the Offer Shares in Belgium. Any action contrary to these restrictions will cause the recipient to be in violation of the Belgian securities laws.

Netherlands

Unless at any relevant time a valid and approved prospectus is available within the meaning of the EU prospectus directive (i.e., Directive 2003/71/EC of the European Parliament and of the Council of 4th November, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC) and Section 5:2 of the Act on Financial Supervision (*Wet op het Financieel Toezicht;* the "WFT"), the Offer Shares may not be offered in the Netherlands other than: i. to qualifying investors (*gekwalificeerde beleggers*) within the meaning of section 5:3 (1)(a) WFT, which includes – without limitation – entities that have a license or are otherwise regulated to be active on the financial markets, governmental bodies, international and supranational organisations, and certain other institutional investors, ii. in an offer addressed to a number of investors of less than 100 persons, other than qualifying investors; or iii. in an offer addressed to investors who can only acquire Offer Shares for a total consideration of at least EURO 50,000 per investor; or iv. as part of an offer where the total consideration of such offer is less than EURO 100,000, which limit shall be calculated over a period of twelve months.

Canada

The Offer Shares may only be offered in those jurisdictions in Canada and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Offer Shares. This prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of the Offer Shares in Canada. No securities commission in Canada has reviewed or in any way passed upon this prospectus or the merit of the offering and any representations to the contrary is an offense.

France

This prospectus has not been prepared in the context of a private placement of securities in France within the meaning of Article L.411-1 of the French *Code Monétaire et Financier* and therefore has not been submitted for clearance to the *Autorité des Marchés Financiers*. Consequently, the Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and this prospectus has not been and will not be distributed to the public in France. Offers, sales and distributions of the Offer Shares in France will

only be made to (i) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*) and/or (ii) qualified investors (*investisseurs qualifiés*) provided that these investors act for their own account, all as defined in, and in accordance with, Articles L.411-1, L.411-2, and D.411-1 to D.411-3 of the French *Code Monétaire et Financier*.

Switzerland

The Offer Shares will not be offered or sold, directly or indirectly, to the public in Switzerland and this prospectus does not constitute a public offering prospectus as that term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations. The Company has not applied for a listing of the Offer Shares being offered pursuant to this prospectus on the SWX Swiss Exchange or on any other regulated securities market and, consequently, the information presented in this prospectus does not necessarily comply with the information standards set out in the relevant listing rules. The Offer Shares being offered pursuant to this prospectus have not been registered with the Swiss Federal Banking Commission as foreign investment funds, and the investor protection afforded to acquirers of investment fund certificates does not extend to acquirers of Offer Shares.

Denmark

This Prospectus has not been filed with or approved by the Danish Financial Supervisory Authority (in Danish: Finanstilsynet) under any Danish Acts or Regulations. The Offer Shares may not be offered or sold, directly or indirectly, in Denmark except under circumstances where the Share Offer is exempt from the obligation to publish the Prospectus under Chapters 6 or 12 (as applicable) of the Danish Securities Trading Act (in Danish: Lov om vaerdipapirhandel).

Norway

This prospectus has not been produced in accordance with Chapter 5 of the Norwegian Securities Trading Act 1997 or approved by or registered with the Oslo Stock Exchange or the Norwegian Register of Business Enterprises. Neither has this prospectus been produced in accordance with the requirements laid down in the Norwegian Securities Fund Act 1981 as amended or approved by Kredittilsynet (the Norwegian Financial Supervisory Authority). The Offer Shares may not be offered or sold, and will not be offered or sold to any persons in Norway in any way that would constitute an offer to the public, other than in circumstances where an exemption from the duty to publish a prospectus under the Norwegian Securities Trading Act 1997 shall be applicable, e.g. if the Offer Shares are only offered or sold to persons who invest in securities as part of their professional activity and who are registered with the Oslo Stock Exchange in this capacity.

This prospectus is only and exclusively addressed to the addressees and can not be distributed, offered or presented, either directly or indirectly to other persons or entities domiciled in Norway.

Sweden

This prospectus has not been approved by or registered with the Swedish Financial Supervisory Authority (*Sw. Finansinspektionen*). Accordingly, the Offer Shares may not be offered or sold, and will not be offered or sold in Sweden in a manner that would require the approval or registration of prospectus by the Swedish Financial Supervisory Authority according to Swedish Financial Instruments Trading Act (Lag (1991:980) om handel med finansiella instrument).

United Arab Emirates

This prospectus does not, and is not intended to, constitute a public offer, sale or delivery of securities in the United Arab Emirates (the "U.A.E.") or an invitation or an offer of securities in the U.A.E., and should not be construed as such. This prospectus is being issued to a limited number of institutional/sophisticated investors: (a) upon their confirmation that they understand, acknowledge and agree that this prospectus is strictly private and confidential and that this prospectus, the placement and the securities have not been reviewed, deposited, approved, licensed or registered by or with the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning or any other authority or governmental agency in the U.A.E., nor has the placement/marketing entity for the U.A.E. received authorisation or licensing from the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning or any other authority in the U.A.E. to market or sell any securities within the U.A.E., and (b) on the condition that this prospectus will not and must not be provided to any person other than the original recipient, is not for general circulation in the U.A.E. and may not be reproduced or used for any other purpose. The securities may not be offered or sold directly or indirectly to the public in the U.A.E.

No marketing of any securities has been or will be made from within the U.A.E. and no subscription to any securities may or will be consummated within the U.A.E. The placement/marketing entity for the U.A.E. is not a licensed broker or dealer or investment advisor under the laws applicable in the U.A.E., and does not advise individuals resident in the U.A.E. as to the appropriateness of investing in or purchasing or selling securities or other financial products. Nothing contained in this prospectus is intended to constitute U.A.E. investment, legal, tax, accounting or other professional advice. This prospectus is for your information only and nothing in this prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

This prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The securities may not be offered or sold directly or indirectly to the public in the U.A.E.

Qatar

This prospectus does not constitute an invitation or public offer of securities in the State of Qatar (including in the Qatar Financial Centre) and accordingly should not be construed as such. This prospectus may be issued to a limited number of sophisticated investors and must not be provided to any person other than the original recipient. It is not for general circulation in the State of Qatar or in the Qatar Financial Centre and may not be reproduced or used for any other purpose.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Cayman Islands

No offer or invitation may be made to the public in the Cayman Islands to subscribe for or purchase any of the Offer Shares.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be sold pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme and pursuant to the Issuing Mandate. Dealings in the Shares on the Stock Exchange are expected to commence on or about 15 June 2007. Save as disclosed in this prospectus, no part of the Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in the Offer Shares. None of the Company, the Selling Shareholder, the Global Coordinator, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Share Offer, the Global Coordinator, as stabilising manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period following the commencement of trading of the Shares on the Stock Exchange. In particular, for the purpose of settling stabilisation over-allocations, the Global Coordinator may borrow up to 45,000,000 Shares from the Selling Shareholder, equivalent to the maximum number of Shares to be sold by the Selling Shareholder on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Global Coordinator or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole discretion of the Global Coordinator and may be discontinued at any time. Any such stabilising activity will end on the thirtieth day after the last day for lodging applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 45,000,000 Shares, which is 15% of the Offer Shares initially available under the Share Offer.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for shares pursuant to an over-allotment option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares for the sole purpose of preventing or minimising any reduction in the market price, (v) selling shares to liquidate a long position held as a result of those purchases, and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilise or maintain the market price of the Shares, the Global Coordinator, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Global Coordinator, or any person acting for it, will maintain the long position is at the discretion of the Global Coordinator and is uncertain. In the event that the Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilising action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the thirtieth day after the last day for lodging applications under the Public Offer. The stabilising period is expected to end on 7 July 2007. As a result, demand for the Shares, and their market price, may fall after the end of the stabilising period.

Any stabilising action taken by the Global Coordinator, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for, or market purchases of, the Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by subscribers and purchasers.

The Global Coordinator will enter into the Stock Borrowing Agreement with the Selling Shareholder whereby the Global Coordinator may borrow Shares from the Selling Shareholder on the following conditions:

- the stock borrowing will only be effected by the Global Coordinator for settlement of over-allocations in the International Placing;

- the maximum number of Shares borrowed from the Selling Shareholder will be limited to the maximum number of Shares which may be sold by the Selling Shareholder upon exercise of the Over-allotment Option;

- the same number of Shares borrowed from the Selling Shareholder must be returned to it or its nominees (as the case may be) on or before three Business Days following the earlier of (i) the last day on which the Over-allotment Option can be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;

- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and

- no payments will be made to the Selling Shareholder in relation to the Stock Borrowing Agreement.

Pursuant to Rule 10.07(3) of the Listing Rules, such stock borrowing arrangement described above is not subject to the restrictions of Rule 10.07(1) of the Listing Rules.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

HONG KONG BRANCH REGISTER AND STAMP DUTY

The Company's principal register of members will be maintained by its principal registrar in the Cayman Islands and the Company's branch register of members will be maintained by its branch share registrar in Hong Kong.

Dealings in the Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in U.S. dollars or RMB have been converted, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK$7.8214	:	*US$1.00*
HK$1.00	:	*RMB0.98518*
RMB7.7055	:	*US$1.00*

No representation is made, and none should be construed as being made, that any amounts in RMB, U.S. dollars or Hong Kong dollars can be, or could have been at the relevant dates, converted at the above rates or any other rates or at all.

EXECUTIVE DIRECTORS

Name	Address	Nationality
Choy Kam Lok (蔡金樂)	Flat F, 29/F, Block 7 Royal Ascot 1 Tsun King Road Shatin Hong Kong	Chinese
Peng Wei (彭韙)	15A, Block C Qunfang Court Jida Huajing Garden Zhuhai Guangdong Province PRC	Chinese
Leung Wing Hon (梁永康)	Flat H, 17/F, Block 3 Locwood Court Kingswood Villas Tin Shui Wai New Territories Hong Kong	Chinese

NON-EXECUTIVE DIRECTOR

Name	Address	Nationality
Choy Siu Chit (蔡紹哲)	Flat F, 29/F, Block 7 Royal Ascot 1 Tsun King Road Shatin Hong Kong	Chinese

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Address	Nationality
Heng Kwoo Seng (邢詒春)	Flat 5, 12/F, Block C Ventris Place 19-23 Ventris Road Hong Kong	Malaysian
Huang Bao Guang (黃寶光)	Room 403, No. 115 Xiangzhou Chui Hua Road Zhuhai City Guangdong Province PRC	Chinese
Song Ming (宋敏)	Flat B, 7/F, Block 26 550-555 Victoria Road Baguio Villa Pok Fu Lam Hong Kong	Chinese

Sole Global Coordinator, Bookrunner, Lead Manager and Sponsor	The Hongkong and Shanghai Banking Corporation Limited Level 15 1 Queen's Road Central Hong Kong
Co-Lead Manager	China International Capital Corporation (Hong Kong) Limited Suite 2307, 23rd Floor One International Finance Centre 1 Harbour View Street Central Hong Kong
Public Offer Underwriter	The Hongkong and Shanghai Banking Corporation Limited Level 15 1 Queen's Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong and US law:* Norton Rose 38th Floor, Jardine House 1 Connaught Place Central Hong Kong *As to PRC law:* Commerce & Finance Law Offices 6F NCI Tower A12 Jianguomenwai Avenue Beijing 100022 PRC *As to Cayman Islands law:* Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong

Legal advisers to the Underwriters	*As to Hong Kong law:* Johnson Stokes & Master 16th-19th Floors, Prince's Building 10 Chater Road Central Hong Kong
Auditors and reporting accountants	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place 88 Queensway Hong Kong
Property valuer	Sallmanns (Far East) Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Receiving banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

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
Company secretary	Leung Wing Hon *(CPA)*
Qualified accountant	Leung Wing Hon *(CPA)*
Authorised representatives	Choy Kam Lok Flat F, 29/F, Block 7 Royal Ascot 1 Tsun King Road Shatin Hong Kong Leung Wing Hon Flat H, 17/F, Block 3 Locwood Court Kingswood Villas Tin Shui Wai New Territories Hong Kong
Audit committee	Heng Kwoo Seng *(Chairman)* Huang Bao Guang Song Ming
Remuneration committee	Heng Kwoo Seng *(Chairman)* Huang Bao Guang Song Ming
Compliance adviser	Goldbond Capital (Asia) Limited 39th Floor, Tower 1, Lippo Centre 89 Queensway Hong Kong

Principal bankers

China
Shenzhen Golden Garden Sub-branch of China Merchants Bank Co., Limited
First Floor, Golden Garden Lianhua West Road
Shenzhen

Qintai Sub-branch of Chengdu City Commercial Bank
14 Qingyang Central Street
Chengdu

Hong Kong
Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Principal share registrar and transfer office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Some of the information and statistics set out in this section have been extracted and/or derived from official government publications and have not been prepared or independently verified by the Company, their respective advisers or affiliates, or any other party involved in the Share Offer. The Sponsor and the Company have taken reasonable care in the production of information extracted from official government publications contained in this section but make no representation as to the correctness or accuracy of such official information and official statistics which may not be consistent with each other or with other information.

THE PHARMACEUTICAL MARKET IN THE PRC

Overview

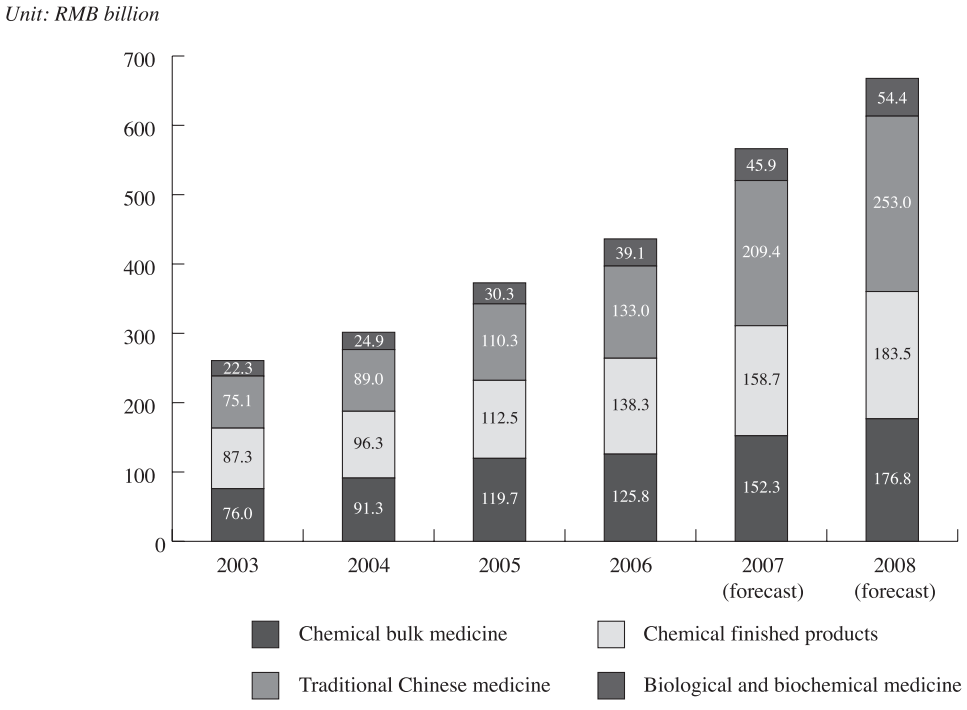
There has been significant growth in public health expenditure in the PRC in recent years. Based on information in China Statistical Extracts 2006 (二零零六年中國統計摘要) published by China Statistics Press (中國統計出版社), total expenditure for public health in China in 2004 reached approximately RMB759 billion (equivalent to approximately HK$770 billion), while per capita total expenditure on health increased from approximately RMB361.1 (equivalent to approximately HK$366.5) in 2000 to approximately RMB583.9 (equivalent to approximately HK$592.7) in 2004, representing a double digit CAGR of approximately 12.8%. This is much higher than the growth in per capita total expenditure on health in the United States over the same period which increased from US$4,588 (equivalent to approximately HK$35,884.6) in 2000 to US$6,102 (equivalent to approximately HK$47,726.2) in 2004, recording a CAGR of approximately 7.4%. According to forecasts for the global pharmaceutical market published by IMS Health, the PRC pharmaceutical market is expected to grow at 15% to 16% in 2007, while the US market is expected to grow at 4% to 5% and the global pharmaceutical market at 5% to 6%.

The per capita annual average medical and health care expenditure in the PRC as a percentage of household expenditure increased from approximately 3.1% in 1995 to approximately 7.6% in 2005 for urban households and from approximately 4.9% in 1995 to approximately 6.6% in 2005 for rural households, according to China Statistical Yearbook 2005 (二零零五年中國統計年鑑) and China Statistical Extracts 2006 (二零零六年中國統計摘要). The per capita annual average medical and health care expenditure for rural households was approximately 28.0% of that for urban households in 2005.

Market segments

According to information compiled by Beijing Huayan Shiji Industry Consulting Co., Ltd. (北京華研世紀產業諮詢有限公司), between 2003 and 2006, turnover of the chemical bulk medicine manufacturing sector in the PRC increased at a double digit CAGR of approximately 18.3%, and turnover of chemical bulk medicine manufacturing sector is expected to grow at a rate of around 21.1% from 2006 to 2007. Chemical medicine, including bulk medicine and finished products, is expected to account for approximately 54.9% of the total medicine sales in the PRC in 2007, followed by traditional Chinese medicine, biological and biochemical medicine.

The following chart shows the turnover of different categories of pharmaceutical manufacturing industries in the PRC between 2003 and 2006 and their forecasted sales for 2007 and 2008:



Source: Beijing Huayan Shiji Industry Consulting Co., Ltd. (北京華研世紀產業諮詢有限公司)

Tender system for medicine purchased by health care institutions in the PRC

Hospitals owned and controlled by counties and higher level government authorities in the PRC must implement collective tender systems for the purchase of certain medicine, which include those listed in the Insurance Catalogue and those that are consumed in large volumes and commonly prescribed for clinical use. The number of medicine subject to the tender system is expected to be expanded. A committee consisting of pharmaceutical experts recognised by the relevant governmental authority will, on behalf of the hospitals, assess bids submitted by the pharmaceutical manufacturers, taking into consideration, among other things, the quality and price of the medicine and the service and reputation of the manufacturers. Any savings in purchase price that hospitals may be able to achieve through the adoption of the tender system are intended to be passed onto the patients. Recently, hospitals in certain provinces have started conducting the tender process on the internet. An increasing number of hospitals are expected to conduct such tender process online.

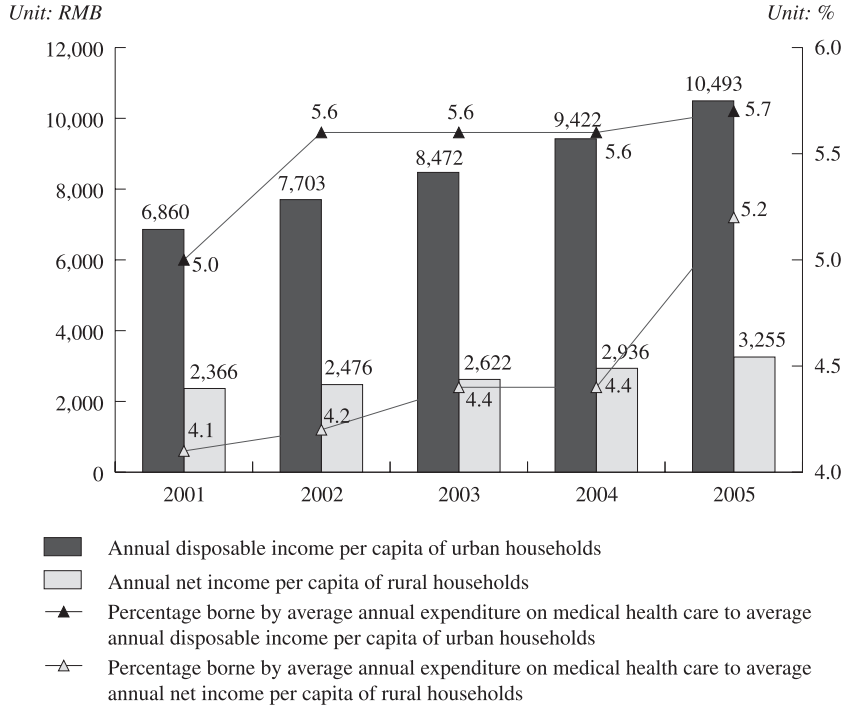
Key factors affecting the development of the PRC pharmaceutical industry

China's economy has grown rapidly in recent years. The total per capita gross domestic product ("GDP") of the PRC increased from approximately RMB9,073 (equivalent to approximately HK$9,209) in 2003 to approximately RMB15,931 (equivalent to approximately HK$16,171) in 2006, representing a CAGR of approximately 20.6%. According to information compiled by Beijing Huayan Shiji Industry Consulting Co., Ltd. (北京華研世紀產業諮詢有限公司), the aggregate turnover of pharmaceutical manufacturers producing chemical bulk medicine, chemical finished products, traditional Chinese medicine and biological and biochemical medicine in the PRC also recorded a double-digit growth from 2003 to 2006.

The Directors consider that the following key factors have had a major influence on the recent development of the pharmaceutical industry in the PRC: (i) increasing income and health awareness in the PRC; (ii) aging population; (iii) government policies relating to the pharmaceutical industry; and (iv) increasing coverage of social medical insurance in the PRC.

(i) Increasing income and health awareness in the PRC

The following chart shows the level of per capita annual average income and medical and health care expenditure for urban and rural households respectively in the PRC from 2001 to 2005:



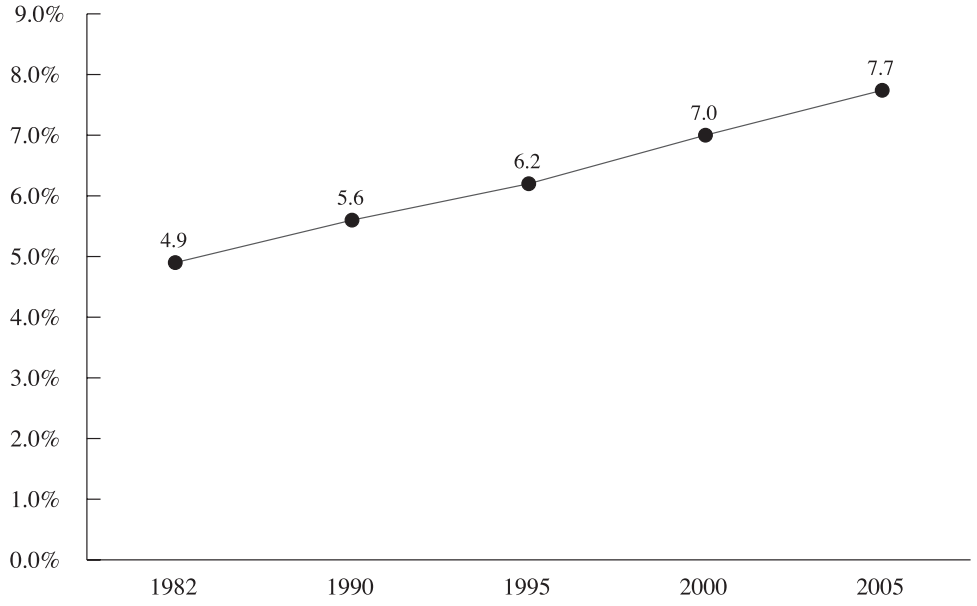
Source: China Statistical Extracts 2006 (二零零六年中國統計摘要)

The average annual disposable income per capita of urban households in the PRC increased from approximately RMB6,860 (equivalent to approximately HK$6,963) in 2001 to approximately RMB10,493 (equivalent to approximately HK$10,651) in 2005, representing a CAGR of approximately 11.2%. The average annual net income per capita of rural households in the PRC increased from approximately RMB2,366 (equivalent to approximately HK$2,402) in 2001 to approximately RMB3,255 (equivalent to approximately HK$3,304) in 2005, representing a CAGR of approximately 8.3%.

The average annual per capita medical and health care expenditure of urban households in the PRC increased from approximately RMB343 (equivalent to approximately HK$348) in 2001 to approximately RMB601 (equivalent to approximately HK$610) in 2005, representing approximately 5.0% and 5.7% of their average annual disposable income per capita in 2001 and 2005, respectively. For rural households in the PRC, the average annual per capita medical and health care expenditure increased from approximately RMB97 (equivalent to approximately HK$98) in 2001 to approximately RMB168 (equivalent to approximately HK$171) in 2005, representing approximately 4.1% and 5.2% of their average annual net income per capita in 2001 and 2005, respectively.

(ii) Aging population

The following chart shows the growth in the number of people aged 65 or above as a percentage of the total population of the PRC in the past two decades:



Source: China Statistical Extracts 2006 (二零零六年中國統計摘要)

According to information published in China Statistical Extracts 2006 (二零零六年中國統計摘要), approximately 5.6% and 7.7% of the total population of the PRC was aged 65 or above in 1990 and 2005, respectively. From 1990 to 2000, average life expectancy in China increased from approximately 68.6 years to approximately 71.4 years.

The following table shows the population size and per capita consumption of medicine of two adult age groups in the PRC in 2000 and the projected population size and per capita average consumption of medicine of those age groups in 2007:

			Urban residents Age		Rural residents Age	
Year		**Unit**	**more than 60**	**15 to 60**	**more than 60**	**15 to 60**
2000	Population size	million	46	308	81	542
	Per capita average consumption of medicine	RMB	984	194	45	8.88
	Total	RMB million	45,260	59,660	3,645	4,810
2007	Projected population size	million	75	328	94	516
	Projected per capita average consumption of medicine	RMB	1,690	332	107	21
	Total	RMB million	126,750	108,896	10,058	10,836

Source: CEI China Industry Development Report (CEI中國行業發展報告) (2004) – Pharmaceutical Production Industry (醫藥製造業), compiled by the China Economic Information Network (中國經濟信息網)

(iii) Government policies relating to the pharmaceutical industry

The PRC Government has adopted a number of measures in recent years to encourage and promote the development of the pharmaceutical industry in the PRC, including encouragement of foreign investment and continued improvement of the health care and medical insurance system.

In the Pharmaceutical Industry Guidance Opinion issued in June 2006, which sets out key policy objectives for the development of the PRC pharmaceutical industry for the five-year period from 2006 to 2010, the key areas of reform and development identified by the PRC Government include the review of the price control policies and measures on pharmaceutical products as well as the extension of medical services and state medical insurance coverage.

The PRC Government exercises price controls over a wide range of pharmaceutical products sold in the PRC, mainly by imposing a retail ceiling price for each such product. When the PRC Government reduces the price of products that are subject to price controls, retailers and distributors of pharmaceutical products in the PRC often seek to pass part of the effects of such price reduction on to the manufacturers. This may result in manufacturers facing increasing price pressure and some of them may be forced to cease producing certain types of medicine due to excessively low prices.

To limit the profit margins derived from the sales of pharmaceutical products, the PRC Government has already mandated that medical institutions (including hospitals) at county and higher levels may not sell pharmaceutical products at a price greater than 15% above the price at which they purchased such products. The PRC Government plans to increase investments in hospitals with a view to encouraging hospitals to cease relying on charging high margins derived from the sale of medicine as a major means of funding their operating expenses. The Directors believe that these measures are capable of reducing the pressure of price reduction on manufacturers in respect of products that are subject to government-mandated price controls, from which the Group will also be able to benefit.

Another key area of reform and development for the pharmaceutical industry in the PRC outlined in the Eleventh Five-year Plan is the expansion of coverage of the New Rural Cooperative Medical Scheme. One of the objectives stated in the "Notice on Accelerated Promotion of Test-Point Work for the New Rural Cooperative Medical Scheme" (《關於加快推進新型農村合作醫療試點工作的通知》), issued in January 2006 is to extend the coverage of the New Rural Cooperative Medical Scheme to virtually all rural residents in the PRC by 2010. The PRC Government has also committed to increasing funding for the New Rural Cooperative Medical Scheme so that participants will benefit from reimbursement of an increased level of medical expenses. Funding contribution at both central and local government levels to the New Rural Cooperative Medical Scheme has increased from an aggregate amount of RMB30 (equivalent to approximately HK$30) (including RMB10 contributed by each participant) per year to RMB50 (equivalent to approximately HK$51) (including RMB10 contributed by each participant) per year in respect of each participant under the scheme with effect from 2006.

At the fifth meeting of the tenth National People's Congress held in March 2007, Premier Wen Jiabao stated in the "Government's Report" (《政府工作報告》) that the PRC Government will accelerate the reform and development of health services in the PRC. It will focus on building a basic health care system that covers both rural and urban areas. The PRC Government will actively promote the implementation of the New Rural Cooperative Medical Scheme. Test points will be expanded to cover over 80% of the counties in the PRC. The central government will make available subsidies of RMB10.1 billion in 2007, an increase of RMB5.8 billion over subsidies made available in 2006. The central government has also budgeted for social security spending of RMB201.9 billion expenses in 2007, representing an increase of RMB24.7 billion over 2006. The government's objective is to strengthen the rural health service network at county, village and town level so that residents in rural areas will have access to safe, efficient, convenient and low cost medical health services. The government will also accelerate the development of the community-based new urban health service system where the emphasis will be placed on the development of community health services.

(iv) Increasing coverage of social medical insurance in the PRC

In the PRC, employers in urban areas are required to subscribe to the State Basic Medical Insurance Scheme which provides coverage for participating employees. The scheme provides for the partial reimbursement (the percentage of which varies in different regions in the PRC) of the cost of any medicine which is listed in the Insurance Catalogue (see further details in the paragraph headed "Insurance Catalogue" in the section headed "Regulatory Framework" of this prospectus) subject to a maximum limit in each case. According to information published in China Statistical Yearbook 2005 (二零零五年中國統計年鑑) and China Statistical Extracts 2006

(二零零六年中國統計摘要), the percentage of the population in the PRC living in urban areas grew from approximately 37.7% of the total population in 2001 to approximately 43.0% in 2005. The number of people covered by the State Basic Medical Insurance Scheme increased from approximately 72.9 million in 2001 to approximately 137.8 million in 2005.

With regard to rural areas, as at the end of 2006, the trial implementation of the New Rural Cooperative Medical Scheme had extended to cover 1,451 counties in the PRC, which accounted for 50.7% of the total number of counties in the PRC, and covered approximately 410 million farmers, which accounted for 47.2% of the total population engaged in the agricultural industry in the PRC. The PRC Government plans to expand the scheme to cover approximately 60% and 80% of the counties in the PRC in 2007 and 2008, respectively.

Competitive landscape

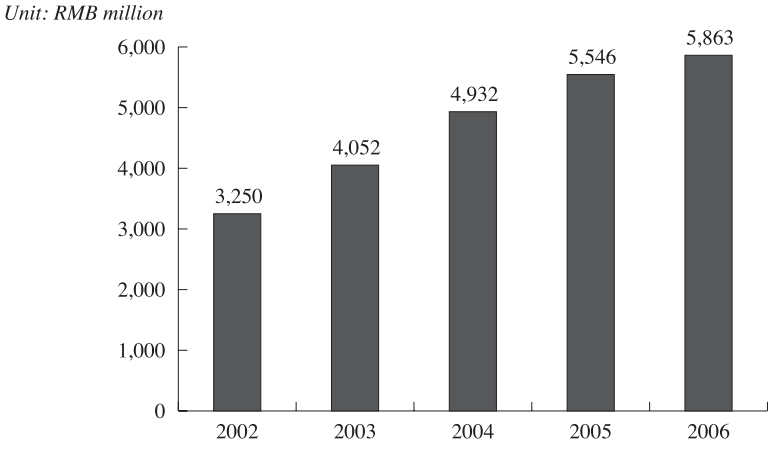
There were a total of 5,308 pharmaceutical manufacturing enterprises in the PRC at the end of 2006. China's pharmaceutical industry is highly fragmented and no manufacturer currently occupies a dominant position in the market. In 2006, 70.1% of pharmaceutical manufacturing enterprises were small-scale enterprises with annual sales of less than RMB30 million (equivalent to approximately HK$30 million); 12.7% were medium-scale enterprises with annual sales of more than RMB30 million (equivalent to approximately HK$30 million) but less than RMB300 million (equivalent to approximately HK$305 million); and 1.2% were large-scale enterprises with annual sales of more than RMB300 million (equivalent to approximately HK$305 million). In 2006, the 10 largest pharmaceutical manufacturing enterprises in terms of sales revenue, together accounted for only 11.9% of the total sales revenue of all pharmaceutical manufacturing enterprises in the PRC according to information compiled by Beijing Huayan Shiji Industry Consulting Co., Ltd. (北京華研世紀產業諮詢有限公司).

THE ANTIBIOTICS MARKET IN THE PRC

Antibiotics are generally used for the prevention and treatment of bacterial infection. They eliminate or inhibit the growth of bacteria and help the human body recover from bacterial infection. The Group mainly produces three types of antibiotics finished products, namely semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors.

According to a survey conducted by the Development Centre of Science and Technology of the Chinese Pharmaceutical Association (the "CPA Survey") over a sample of 257 hospitals in 16 cities in the PRC, the value of antibiotics finished products purchased by them grew from approximately RMB3,250 million (equivalent to approximately HK$3,299 million) in 2002 to approximately RMB5,863 million (equivalent to approximately HK$5,951 million) in 2006, representing a CAGR of approximately 15.9%. Antibiotics accounted for approximately 21.5% of the total value of medicine purchased by those hospitals in 2006. According to the NDRC, between 1996 and 2005, the total value of antibiotics finished products purchased by these sample hospitals surveyed increased even there had been continuous decrease in prices of pharmaceuticals, including antibiotics, in that period.

The following chart shows the annual value of antibiotics finished products purchased from 2002 to 2006 by the hospitals covered by the CPA Survey:



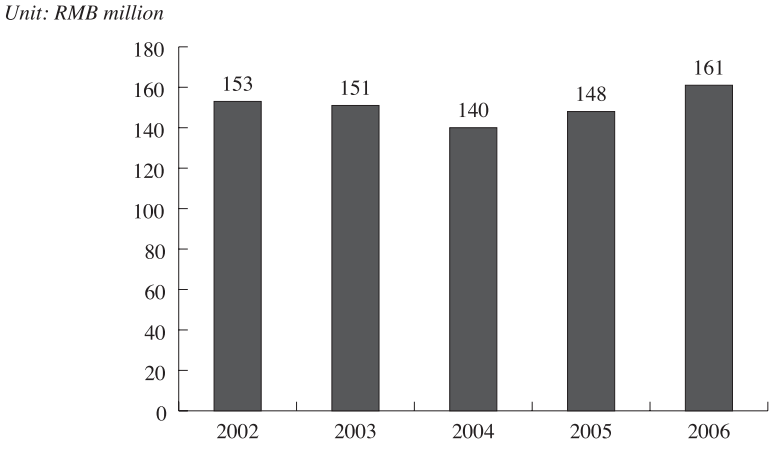
Source: Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心)

Semi-synthetic penicillin antibiotics

Penicillin refers to a group of β-lactamase antibiotics used in the treatment of bacterial infection caused by susceptible, usually gram-positive, organisms. Semi-synthetic penicillin antibiotics consist of the basic penicillin structure which has been modified to become more acid-stable, more effective against different types of bacteria and more resistant to enzymes that are capable of countering the effects of penicillin.

According to the CPA Survey, the total value of semi-synthetic penicillin antibiotics purchased by the 257 hospitals surveyed remained at a stable level from 2002 to 2006.

The following chart shows the annual value of semi-synthetic penicillin antibiotics purchased from 2002 to 2006 by the hospitals covered by the CPA Survey:



Source: Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心)

The following table shows the top five types of semi-synthetic penicillin antibiotics finished products in terms of purchase by value in 2006 by the hospitals covered by the CPA Survey:

Products	Purchase by value *(RMB million)*	Percentage of total value of semi-synthetic penicillin antibiotics
Azlocillin	49.3	30.6%
Mezlocillin	38.8	24.1%
Amoxicillin*	24.0	14.9%
Ampicillin and cloxacillin	10.0	6.2%
Furbenicillin sodium	8.8	5.5%

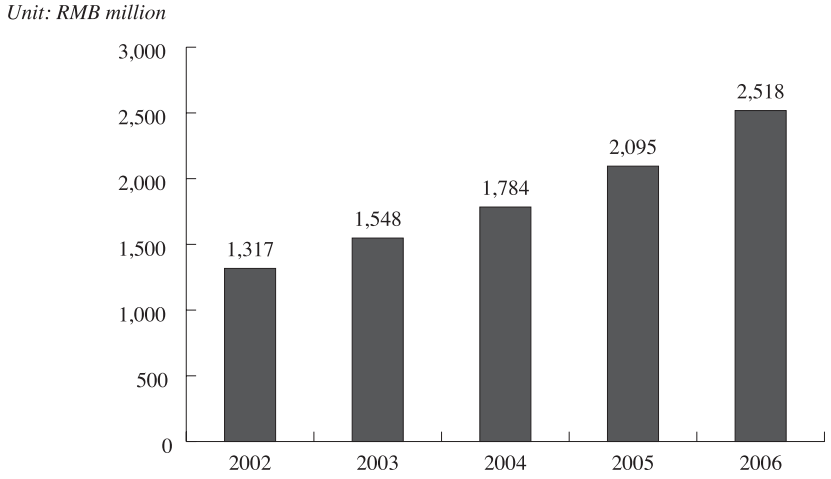
** denotes product produced by the Group*

Cephalosporins antibiotics

Cephalosporins antibiotics have the advantages of a broad anti-bacterial spectrum, penicillinase resistance, good curative effect, low toxicity and minimal allergy symptoms.

According to the CPA Survey, the total value of cephalosporins antibiotics purchased by the hospitals surveyed increased from approximately RMB1,317 million (equivalent to approximately HK$1,337 million) in 2002 to approximately RMB2,518 million (equivalent to approximately HK$2,556 million) in 2006, representing a CAGR of 17.6%.

The following chart shows the annual value of cephalosporins antibiotics purchased from 2002 to 2006 by the hospitals covered by the CPA Survey:



Source: Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心)

The following table shows the top five types of cephalosporins antibiotics finished products in terms of purchase by value in 2006 by the hospitals covered by the CPA Survey:

Products	Purchase by value *(RMB million)*	Percentage of total value of cephalosporins antibiotics
Cefuroxime*	390.7	15.5%
Cefotiam	200.7	8.0%
Ceftriaxone*	179.2	7.1%
Cefminox	177.1	7.0%
Cefepime	165.6	6.6%

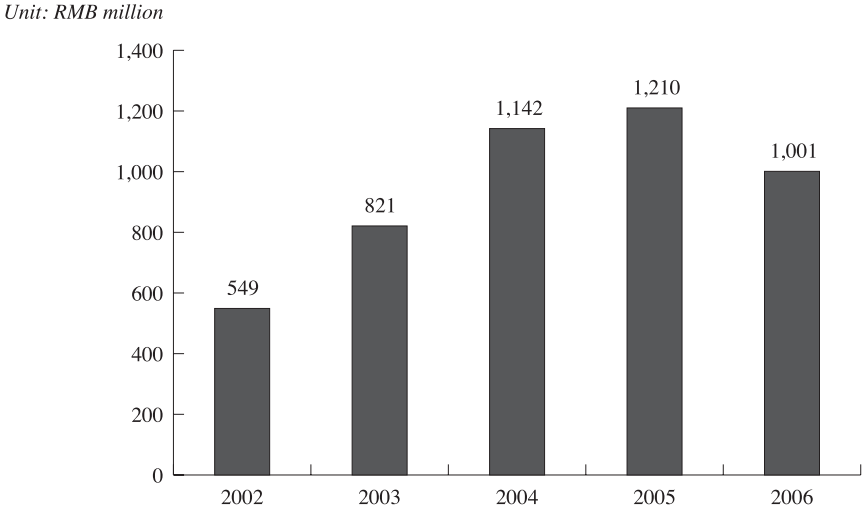
** denotes product produced by the Group*

β-lactamase inhibitor antibiotics

β-lactamase inhibitors are proteins designed to inhibit or destroy the effectiveness of β-lactamase enzymes. Inhibitors generally have little anti-microbial properties on their own and hence, have to be combined with a β-lactamase antibiotic to form β-lactamase inhibitors. These inhibitors (which mainly include clavulanic acid, sulbactam and tazobactam types) are more efficient in destroying β-lactamase enzymes than the β-lactam antibiotic on its own. β-lactamase inhibitors have enhanced anti-bacterial capability, a broader anti-bacterial spectrum and have good curative effect against most anaerobic bacteria.

According to the CPA Survey, the total value of β-lactamase inhibitor antibiotics purchased by the hospitals surveyed increased from approximately RMB549 million (equivalent to approximately HK$557 million) in 2002 to approximately RMB1,001 million (equivalent to approximately HK$1,016 million) in 2006, representing a CAGR of 16.2%.

The following chart shows the annual value of β-lactamase inhibitor antibiotics purchased from 2002 to 2006 by the hospitals covered by the CPA Survey:



Source: Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心)

The following table shows the top five types of β-lactamase inhibitor antibiotics finished products in terms of purchase by value in 2006 by the hospitals covered by the CPA Survey:

Products	**Purchase by value** *(RMB million)*	**Percentage of total value of β-lactamase inhibitor antibiotics**
Sulbactam sodium/cefoperazone sodium*	399.4	39.9%
Piperacillin/Tazobactam*	187.7	18.8%
Amoxicillin and clavulanic acid*	136.4	13.6%
Amoxicillin/Sulbactam Sodium	91.7	9.2%
Mezlocillin Sodium/Sulbactam Sodium	75.2	7.5%

* *denotes product produced by the Group*

PRC

Principal laws and regulations

The principal laws and regulations governing the production and sales of pharmaceutical products industry in the PRC include the "Drug Administration Law of the PRC" (中華人民共和國藥品管理法) (the "Drug Administration Law") promulgated in September 1984 (and amended in February 2001) and the "Implementation Regulations of the Drug Administration Law of the PRC" (中華人民共和國藥品管理法實施條例) (the "Drug Administration Regulations"). The Drug Administration Law and Regulations set out the main legal framework governing the production and sales of pharmaceutical products industry in the PRC, including the manufacture, sale, packaging, pricing and advertising of pharmaceutical products.

Principal regulatory body

The principal regulatory body of the production and sales of pharmaceutical products industry in the PRC is the SFDA (whose predecessor, the SDA, was first established on 16 April 1998). The main responsibilities of the SFDA include the classification of drugs and medical devices for the purposes of regulation, approval of applications for registration of new and generic medicine, approval of applications to engage in the production of pharmaceutical products or medical devices and GMP certification.

Regulatory approval and certification required by pharmaceutical manufacturing enterprises

Drug Manufacturing Certificate

All enterprises engaged in the production of pharmaceutical products in the PRC are required to obtain and maintain a Drug Manufacturing Certificate (藥品生產許可證) issued by the relevant provincial level office of the SFDA under the Drug Administration Regulations. The provincial level offices of the SFDA will only issue a Drug Manufacturing Certificate to a pharmaceutical manufacturing enterprise if it is able to meet the following requirements:

(1) it has legally qualified pharmaceutical and engineering professionals and the necessary technical staff;

(2) it has the premises, facilities and hygienic environment required for drug manufacturing;

(3) it has the facilities and personnel to implement quality control and to undertake testing for the drugs produced; and

(4) it has implemented sufficient internal quality control procedures to ensure the quality of the drugs produced.

A Drug Manufacturing Certificate is valid for a period of five years and sets out the scope of production activities that in which enterprise is permitted to engage. All drug manufacturing enterprises are required to apply to renew their Drug Manufacturing Certificates not later than six months prior to their respective expiration dates. Any such renewal will be subject to review by the relevant provincial level office of the SFDA.

GMP certification

Pursuant to the "Notice on the Acceleration of the Supervision and Implementation of Good Manufacturing Practice" ((關於全面加快監督實施藥品GMP工作進程的通知) issued on 12 October 2001, all drug manufacturing enterprises in the PRC are required to comply with GMP and were required to obtain a GMP certificate by 30 June 2004. In accordance with the "Notice on the Supervision and Implementation of Good Manufacturing Practice" (關於全面監督實施藥品GMP認證有關問題的通告) issued on 23 October 2003, the SFDA may require any drug manufacturing enterprise in the PRC which had not applied for GMP certification by 30 June 2004 or which had not obtained GMP certification by 31 December 2004 to cease production and to revoke its Drug Manufacturing Certificate.

The GMP guidelines and standards in the PRC are prescribed by the SFDA and cover areas such as staff qualification, production facilities, raw materials, hygiene, production management, quality control and customer complaints. A GMP certificate is valid for five years and all drug manufacturing enterprises in the PRC are required to apply for the renewal of their GMP certificate not later than six months prior to its expiration date and renewal will be subject to reassessment by the SFDA (or its relevant provincial level office).

Regulatory approval and certification required by pharmaceutical sales and distribution enterprises

Drug Operation Certificate

All enterprises engaged in the sale or distribution of pharmaceutical products in the PRC, whether as a wholesaler, retailer or otherwise, are required to obtain and maintain a Drug Operation Certificate (藥品經營許可證) issued by the provincial, municipal or county level office of the SFDA. The Drug Operation Certificate will only be issued if the enterprise making the application is able to meet the following requirements:

(1) it has legally qualified pharmaceutical professionals;

(2) it has the business operation premises, equipment, warehouses and hygienic environment required for drug distribution;

(3) it has the units or personnel for quality control over the drugs to be distributed; and

(4) it has appropriate rules and regulations to ensure the quality of the drugs to be distributed.

A Drug Operation Certificate is valid for five years and sets out the scope of sales or distribution activities in which the enterprise is permitted to engage. All pharmaceutical sales and distribution enterprises are required to apply to renew their Drug Operation Certificates within the six-month period prior to their respective expiration dates. Any such renewal will be subject to certification by the relevant provincial, municipal or county level office of the SFDA.

Foreign investment enterprises were previously restricted under PRC law from engaging in the sale or distribution of pharmaceutical products in the PRC, but this restriction was removed in December 2004.

Regulatory approval and registration required to be obtained for pharmaceutical products

Principal regulations and regulatory authority

Currently, the principal regulations governing the approval and registration of specific pharmaceutical products in the PRC are the "Administration of Registration of Pharmaceuticals Procedures" (藥品註冊管理辦法) which were promulgated on 28 February 2005 by the SFDA and came into effect on 1 May 2005.

The principal regulatory body responsible for the approval and registration of pharmaceutical products in the PRC is the SFDA. There are four principal types of registration, namely (i) registration as a new medicine, (ii) registration as a medicine which is in compliance with existing national standards, (iii) registration as an imported medicine and (iv) supplemental application for medicine registration. All pharmaceutical manufacturers are required to obtain approval and registration of each pharmaceutical product from the SFDA before engaging in its production or sale in the PRC.

Registration as a new medicine

Only medicine which has not previously been sold in the PRC at the time of application for registration is eligible for registration as a new medicine. The medicine must have completed clinical trial and other assessments prescribed by the SFDA. Innovative drugs are also eligible for registration as new medicine.

The registration of a new medicine requires the support of clinical research. Any party who intends to undertake clinical research on any new medicine must first apply for approval from the SFDA. In deciding whether to grant any such approval, the SFDA will review pre-clinical research findings submitted by the applicant as well as conduct its own technical assessment of the relevant new medicine.

After completion of clinical research, the applicant will have to apply for approval from the SFDA to manufacture the new medicine, which application involves submitting, among other things, clinical research information for review and samples of raw materials for testing. The applicant's production facilities will be inspected and must comply with GMP standards. In assessing the application, the SFDA will involve the provincial level drug administration authority where the applicant is based as well as certain designated laboratories. If the SFDA is satisfied with the results of such assessment, a Certificate of New Medicine (新藥證書), as well as a Drug Registration Approval (藥品註冊批件), will be issued to the applicant with respect to the new medicine.

New measures were introduced in the PRC in 1999 to protect the right to manufacture any new medicine in respect of which a Certificate of New Medicine has been obtained. Where a Certificate of New Medicine has been obtained in respect of any product, no entity or individual will be allowed to engage in the production of any similar product in the PRC within a specified "protection period" of variable length between six and twelve years (depending on the categorisation of such product), other than pursuant to a technology transfer from, or under licence by, the holder of the Certificate of New Medicine. The SFDA will also not accept any application for Drug Registration Approval for any such similar products.

Further measures were implemented in 2002 which allow the SFDA to impose a monitoring period with respect to any product in respect of which a Certificate of New Medicine has been issued. The monitoring period may be imposed for not more than 5 years from the date on which approval for production was given. The monitoring period was introduced to replace the protection period. The SFDA will not allow any entity or individual to engage in the manufacture, sale or the import of any product which is similar to a product protected by the Certificate of New Medicine in the PRC during its monitoring period. If any product protected by a Certificate of New Medicine is put into production during the monitoring period, the holder of the certificate is required to review regularly the technical know-how involved in the production of such product as well as the quality, stability and effectiveness of such product and to report to the provincial level drug administration authority on an annual basis.

Certain measures were introduced to facilitate the transition from the old regime to the new one, which included (i) in the case of new medicine in respect of which the Certificate of New Medicine had been obtained prior to 15 September 2002, its protection period would continue to apply; (ii) in the case of any new medicine which had been approved for clinical research but which had not been approved for production prior to 15 September 2002, the old regime applies. Any new medicine which had been approved for clinical studies but not for production prior to 15 September 2002 is subject to a transition period ranging from three to five years, during which no entity or individual will be allowed to produce the same kind of medicine in the PRC; (iii) in the case of any new medicine in respect of which an application for Certificate of New Medicine had been made to and accepted by the SFDA but approval for clinical research had not yet been granted or any new medicine in respect of which application for Certificate of New Medicine had been accepted after 15 September 2002, they would be subject to the new regime.

As a result of the above, the maximum period during which the holder of a Certificate of New Medicine has the right to engage in exclusive production thereof in the PRC has been reduced from twelve to five years.

Registration as a medicine which is in compliance with existing national standards

Any medicine for which the PRC Government has already set national standards may be registered under the category of medicine which is in compliance with existing national standards.

Application for registration of any pharmaceutical product as a medicine with existing national standards may be made by any pharmaceutical manufacturing enterprise holding a valid Drug Manufacturing Certificate and GMP certificate, provided that the production of such product falls within the type of products permitted under the Drug Manufacturing Certificate and GMP certificate held by such enterprise.

Under normal circumstances, no clinical trial will be required in connection with an application for registration as a medicine which is in compliance with existing national standards. If the application is approved by the SFDA, a Drug Registration Approval (藥品註冊批件) with respect to the product will be issued by the SFDA to the applicant.

Registration as an imported medicine

All medicine which is manufactured outside the PRC and is imported into the PRC is required to be registered.

The SFDA will usually only approve such medicine for registration if it has already been approved for sale by the relevant health authority in the country where it is manufactured, unless the SFDA is satisfied as to its safety and effectiveness and that it is in demand in the PRC. The SFDA also requires all imported medicine to comply with GMP certification requirements applicable both in the PRC and the country in which it is manufactured.

If application for registration as an imported medicine is approved by the SFDA, a Certificate of Registration of Imported Medicine (進口藥品註冊證) or if the product is manufactured in Hong Kong, Macau or Taiwan, a Certificate of Registration of Pharmaceutical Product (醫藥產品註冊證) will be issued by the SFDA.

Supplemental application for medicine registration

Where any pharmaceutical manufacturing enterprise proposes to change or modify any pharmaceutical product which has been registered with the SFDA, including with respect to its curative effect or production method, an application for supplemental registration has to be made by such enterprise to the provincial office of the SFDA (or in the case of any product registered as imported medicine, the SFDA).

Price controls

The PRC Government imposes price controls on a wide range of pharmaceutical products, including antibiotics finished products, in the PRC. All medicine listed in the Drugs Pricing Catalogue are subject to price controls by the PRC Government which, in principle, include all medicine listed in the Insurance Catalogue. The products which are subject to price controls also include certain pharmaceutical products whose production or sale is protected under patent registration(s) in the PRC, drugs which are still within their relevant patent protection periods, drugs which are subject to pricing by relevant authorities at the provincial level, as well as any other medicine which the PRC Government may consider necessary to be subject to price controls.

The PRC Government implements price controls mostly by prescribing a retail ceiling price for each product applicable to each and every pharmaceutical manufacturer engaged in producing it, or, in a smaller number of cases, by prescribing a fixed wholesale price for such product. The NDRC is responsible for setting the retail ceiling prices for all western and Chinese prescription medicine listed in the Insurance Catalogue. A list of such products and their prescribed retail ceiling prices is set out in the Drugs Pricing Catalogue, which is published and revised by the NDRC from time to time. The retail ceiling prices for OTC medicine listed in the Insurance Catalogue is prescribed by provincial pricing departments.

All pharmaceutical products which are subject to price controls may not be sold at a retail price higher than their prescribed retail ceiling prices, unless approval for individual pricing has been obtained (see further details below). The prescribed retail ceiling price for each product is revised from time to time by the NDRC or the provincial pricing department (as the case may be). For pharmaceutical products which are not subject to price controls in the PRC, their retail prices may be set by retailers at their discretion.

In relation to any pharmaceutical product which is subject to price controls, the manufacturer may apply to the NDRC for approval for such product to be sold at a specified retail price which is higher than its prescribed retail ceiling price, if approval is granted, the specified retail price becomes the maximum retail price at which that product may be sold. This process is known as approval for "individual pricing". Approval of any such application is based on the quality, curative effect and safety of the product.

Insurance Catalogue

The Insurance Catalogue is divided into two parts, Part A (products prescribed by the PRC Government that cannot be amended by local level authorities) and Part B (products prescribed by the PRC Government that can be modified by provincial level authorities).

All pharmaceutical products listed in the Insurance Catalogue are covered by either the State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme. Products not listed in the Insurance Catalogue will not be covered by these medical insurance schemes. All pharmaceutical products listed under the Insurance Catalogue are subject to price controls by the PRC Government.

Pursuant to the "Notice of Interim Measures Concerning the Administration of the Publication of the Scope of Medicine under the Basic Medical Insurance for workers in Cities and Municipalities" (關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知) ("Notice of Interim Measures"), which became effective on 12 May 1999, the Insurance Catalogue is, in principle, to be revised every two years. The first edition of the Insurance Catalogue was published in 2000 and was not revised until 2004. The Insurance Catalogue has not been revised since 2004.

The specific products that are included in the Insurance Catalogue may change on each occasion when it is revised. For any pharmaceutical product to be included in the Insurance Catalogue, the principal regulatory requirements include that the product is necessary for clinical use, safe and effective, reasonably priced, user-friendly, has stable market supply, and must fall within one of the following catalogues: (i) a drug listed in the PRC Pharmacopoeia (中華人民共和國藥典); (ii) a drug that complies with standards set by the SFDA; or (iii) a drug allowed for import by the SFDA. A drug may be taken out from the Insurance Catalogue if (i) the registration number of the drug is revoked; (ii) the Import Drug Registration Certificate (進口藥品註冊證) of the drug is revoked; (iii) the drug is prohibited by the SFDA from being manufactured, sold and used; (iv) the production and sale of the drug is in violation of law; or (v) deceitful acts were involved in the assessment process.

In accordance with the "Notice of Interim Measures", the Ministry of Labour and Social Security of the PRC is primarily responsible for the compilation of the Insurance Catalogue. The review group established under the lead of the ministry is responsible for the selection of an expert committee from among medical or pharmaceutical experts from across the PRC. This expert committee will be responsible for reviewing products for inclusion in the Insurance Catalogue. On each occasion when the Insurance Catalogue is revised, it has to be validated by the expert committee and reviewed by the lead review group before it will then be issued by the Ministry of Labour and Social Security of the PRC. Pharmaceutical manufacturers and other business enterprises in the pharmaceutical industry are not involved in revising the Insurance Catalogue.

Laws and regulations relating to patent protection in the PRC

The principal rules and regulations governing the registration of patents in the PRC include the "Patent Law (2000 revision)" (中華人民共和國專利法(2000)修訂版) of the PRC and its implementation regulations. Pursuant to such laws and regulations, patents are defined to include inventions, practical new models and exterior appearance designs. To be eligible for patent registration in the PRC, inventions and practical new models must be innovative, creative and practical while exterior appearance designs must be different from and not similar to any existing design previously published in any domestic and overseas publication or used in public in the PRC as at the date of application and must not conflict with any legal right previously acquired by any other party. The State Intellectual Property Bureau of the PRC (中華人民共和國國家知識產權局) is responsible for the supervision of patented medicine. The term of patents for inventions is 20 years while the term of patents for new models and exterior appearance design is 10 years, commencing from the date of application. After a patent has been registered, then save as otherwise stipulated in the Patent Law, no party may use the patent without the permission of the patent owner.

Laws and regulations relating to environmental protection and occupational health and safety

The principal laws and regulations relating to environmental protection include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), which sets out requirements in relation to the control and prevention of pollution, and the Law on Evaluation of Environmental Effects of the PRC (中華人民共和國環境影響評價法), which regulates the environmental impact caused by infrastructure or construction projects.

The Safe Production Law of the PRC (中華人民共和國安全生產法) is the principal legislation governing occupational health and safety in the PRC.

HONG KONG

All manufacturers of pharmaceutical products in Hong Kong are required by law to obtain a "Licence for Manufacturer" issued by the Pharmacy and Poisons (Manufacturers Licensing) Committee under the Pharmacy and Poisons Board. The Licence for Manufacturer will specify the premises at which the licensed manufacturer may carry on its production activities. Manufacturers are also required to apply for a "Certificate for Manufacturer" which will certify that the manufacturer meets with the requirements of good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation. Such certificate will also set out the types of products which the manufacturer is authorised to produce. The Licence for Manufacturer may be revoked or suspended if the licensee fails to comply with the conditions subject to which the licence was issued or with any of the Pharmacy and Poisons Regulations. The Licence for Manufacturer and Certificate for Manufacturer is each valid for a period of one year and is subject to annual renewal by the Pharmacy and Poisons Board.

Under the Pharmacy and Poisons Regulations, pharmaceutical products and substances must be registered before they can be sold, offered for sale, distributed or possessed for the purposes of sale, distribution and other use in Hong Kong. Registered pharmaceutical products will be granted a "Certificate of Drug/Product Registration". Certain exemptions from registration are available including where the pharmaceutical product or substance has been manufactured in Hong Kong to be exported outside Hong Kong.

OVERVIEW

The Group is principally engaged in the manufacture and sale of antibiotics finished products and the bulk medicine and intermediate products used to produce them. It is one of the major manufacturers of antibiotics in the PRC. The Group also produces and sells smaller amounts of cough syrup, anti-allergy medicine and capsule casings. According to information published by Southern Medical Economic Research Centre (南方醫藥經濟研究所), the Group ranked amongst the top 20 chemical pharmaceutical industry enterprises (化學製藥工業企業) in the PRC in 2005 in terms of revenue.

Customers of the Group's finished products include primarily distributors of pharmaceutical products in the PRC such as Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) and Yunnan Pharmaceutical Industrial Company Limited (雲南醫藥工業股份有限公司). For sales of intermediate products and bulk medicine outside the PRC, its customers include pharmaceutical manufacturers and distributors such as DSM Anti-infectives India Ltd., HELM AG, Daewoong Chemical Co., Ltd. and Indukern Chemie A.G.. The Directors believe that the quality of the Group's products and their price competitiveness are both key factors in helping the Group to establish its extensive customer base.

The Group has a vertically integrated production operation which enables it to undertake the upstream production of intermediate products, the mid-stream processing of intermediate products into bulk medicine as well as the downstream production of antibiotics finished products from bulk medicine. The Directors believe that such vertical integration provides the Group with more flexibility to expand its production as well as better control over product quality and production costs.

The following table sets out a breakdown of the Group's turnover by major product categories for the three years ended 31 December 2004, 2005 and 2006, respectively:

Product	**Year ended 31 December 2004**		**Year ended 31 December 2005**		**Year ended 31 December 2006**	
	(HK$'000)	*(% sales by value)*	*(HK$'000)*	*(% sales by value)*	*(HK$'000)*	*(% sales by value)*
Intermediate products	0	0	53,903	3.1	197,373	9.5
Bulk medicine	639,897	53.3	896,447	52.1	1,077,294	51.8
Finished products and capsule casings	560,207	46.7	770,092	44.8	805,812	38.7
Total	1,200,104	100	1,720,442	100	2,080,479	100

While the Group derived 78.6% or more of its total turnover from sales in the PRC in the year ended 31 December 2006, the Group has been actively developing sales outside the PRC of its bulk medicine and intermediate products. For the three years ended 31 December 2004, 2005 and 2006, the Group's sales outside the PRC, which were primarily made to Germany, Korea and India, totalled HK$118.6 million, HK$212.3 million and HK$445.8 million respectively, representing approximately 9.9%, 12.3% and 21.4% of the Group's total turnover, respectively. The Directors believe that such sales have helped the Group gain wider brand recognition in overseas markets and will help pave the way for the Group to develop sales of its antibiotics finished products and intermediate products in those markets. While the Directors expect the PRC market to remain the Group's primary focus, the development of overseas sales will help the Group reduce its reliance on the PRC market and its exposure to price controls imposed by the PRC Government on a wide range of pharmaceutical products in the PRC.

The PRC Government has imposed price controls over a wide range of antibiotics finished products and other pharmaceutical products, including all medicine listed in the Insurance Catalogue, mainly by prescribing a retail ceiling price for each product. While these price controls apply to the retail price of a product (as opposed to the wholesale price, at which the Group sells its finished products to its customers), retailers and distributors often seek to pass on part of the effects of such price reductions to manufacturers.

During the Track Record Period, the PRC Government reduced the prescribed retail ceiling prices of a wide range of products that were subject to government-mandated price controls on three occasions. In May 2004, the retail ceiling prices of various anti-inflammatory products were reduced, including those of 22 of the Group's finished products which were reduced by between 16% and 55.1%. In September 2005, the PRC Government implemented another price reduction which affected nine of the Group's finished products. The retail ceiling prices of those nine products were reduced by between 20.1% and 64%. Eight of those products had also had their retail ceiling prices reduced in 2004. In August 2006, a third round of price reductions was implemented which affected the retail ceiling prices of five of the Group's finished products, which were reduced by between 17% and 53.8%. None of those products were affected by the price reduction implemented by the PRC Government in 2004 or 2005.

Sales of finished products whose retail ceiling prices were reduced accounted for approximately 24.8%, 2.1% and 12.3% of the Group's total turnover in the three years ended 31 December 2004, 2005 and 2006, respectively. For the year ended 31 December 2004, the Group's total turnover decreased by 6.6% when compared to the year ended 31 December 2003, a smaller percentage decrease than that of its turnover derived from sales of finished products whose retail ceiling prices were reduced, which decreased by 28.2%. For the year ended 31 December 2005, the Group's total turnover increased by 43.4% when compared to the year ended 31 December 2004, even though turnover derived from sales of all finished products whose retail ceiling prices were reduced decreased by 31.1% between those two years. For the year ended 31 December 2006, the Group's total turnover derived from sales of its finished products whose retail ceiling prices were reduced increased by 6.5% when compared to the year ended 31 December 2005, while the Group's total turnover increased by 20.9% between those two years.

A more detailed analysis of the impact of the reductions of the government-mandated retail price ceilings on the Group's total turnover generally and the total turnover of the products affected by such reductions specifically is set out under "Price reductions, their impact on the Group's results and mitigating measures adopted" in the section headed "Financial information" of this prospectus.

The Group was able to mitigate in part the impact on its total turnover of reductions in these government-mandated retail price ceilings through a variety of measures. These measures included adjustment to the Group's product mix, increasing marketing efforts for selective finished products, selling increased quantities of certain of its products, increasing overseas sales and reducing costs as a percentage of total annual turnover.

The Group operated in a highly challenging environment in China over the Track Record Period, primarily as a result of reductions in government-mandated retail price ceilings for its various products as well as increasingly intense competition within the industry. The Group's total turnover increased, however, by 43.4% from HK$1,200.1 million in 2004 to HK$1,720.4 million in 2005, and by 20.9% from HK$1,720.4 million in 2005 to HK$2,080.5 million in 2006. Its EBITDA also grew by 19.7% from HK$282.2 million in 2004 to HK$337.7 million in 2005 and by 48.4% from HK$337.7 million in 2005 to HK$501.2 million in 2006. The Group's net profit increased from HK$149.4 million in 2004 to HK$173.8 million in 2006.

The Group's profitability over the Track Record Period was also affected by the pre-operating expenses, depreciation and interest expense related to the construction of its new production plant in Chengdu which started in July 2003. The Chengdu plant commenced production for sale to third party customers in 2005, and for the two years ended 31 December 2004 and 2005, its segment results recorded losses of HK$51.5 million and HK$52.1 million, respectively. However, it recorded positive segment results of HK$25.4 million for the year ended 31 December 2006. The Directors consider the investment in the Chengdu plant as an important strategic move for the Group, as it gives the Group the capability of producing its own supply of intermediate products required for its production of bulk medicine and hence, more flexibility in choosing between producing its own supply or purchasing from third party suppliers in the light of market conditions. It also allows the Group to have better and more direct control over quality and production.

As at the Latest Practicable Date, the Group mainly produced three categories of antibiotics finished products, namely semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors. These products are mainly used for the treatment of microbial infections including respiratory infections, digestive system infections, urinary system infections and skin and soft tissue infections.

The following table shows the number of Drug Registration Approvals and Certificates of Drug/Product Registration obtained by the Group and the number of products the Group was qualified to produce and the number of products which the Group was engaged in as at 31 December 2006:

	Number of Drug Registration Approvals (in the PRC) and Certificates of Drug/Product Registration (in Hong Kong) obtained for the Group's products	**Number of products the Group was qualified to produce in the PRC and/or Hong Kong based on the Drug Registration Approvals and Certificates of Drug/Product Registration held by the Group**	**Number of products in production in the PRC and/or Hong Kong as at 31 December 2006**
Total:	148	127	72 *(Note 2)*
– Bulk medicine	30	30	19
– Finished products	118 *(Note 1)*	97	53 *(Note 3)* • 33 products listed in the Insurance Catalogue • 49 prescription medicine and 4 OTC medicine • 11 products (including bulk medicine and finished products) with Certificates of New Medicine with unexpired protection, transition or monitoring periods *(Note 4)*

Notes:

1. Such number includes 89 Drug Registration Approvals and 29 Certificates of Drug/Product Registration.

2. Such number includes 71 products in production by the Group in the PRC, of which 3 were also in production in Hong Kong; and one product which was in production only in Hong Kong.

3. There were three finished products that were produced by the Group both in the PRC and Hong Kong as at 31 December 2006.

4. The protection, transition or monitoring periods of five of such products expired in the first half of 2007. Hence, as at the Latest Practicable Date, six of the Group's products in production had Certificates of New Medicine whose protection, transition or monitoring periods had not yet expired.

The Group is currently applying for regulatory approval in the PRC to engage in the production of two penem type antibiotics finished products which it has developed. Penem type antibiotics are, to the knowledge of the Directors, the latest generation of antibiotics that have been introduced to the market and are more advanced than the three categories of antibiotics which the Group is currently producing.

The State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme provides participants with partial reimbursement of the costs of medicine listed in the Insurance Catalogue (the percentage of reimbursement varies in different regions in the PRC). Most of the Group's products that are currently listed in the Insurance Catalogue are antibiotics finished products and include one of the Group's best selling products, amoxicillin capsules. The Directors believe that because of the availability of partial state insurance cover, medicine listed in the Insurance Catalogue are generally more popular among consumers than those which are not. Revenue derived by the Group from sales of finished products listed in the Insurance Catalogue as at 31 December 2006 accounted for approximately 27.8%, 24.8% and 20.7% of its total annual turnover for the three years ended 31 December 2004, 2005 and 2006, respectively.

Of the Group's finished products in production as at 31 December 2006, sales of OTC medicine amounted to HK$9.4 million, HK$10.7 million and HK$13.9 million, while sales of prescription medicine amounted to HK$532.8 million, HK$740.8 million and HK$775.2 million in the three years ended 31 December 2004, 2005 and 2006, respectively.

As at 31 December 2006, a total of 39 of the Group's finished products in production in the PRC and all of the four finished products in production in Hong Kong (three of which were also in production in the PRC) were subject to government-mandated price controls. Revenue derived from sales of the Group's finished products in the PRC that were subject to government-mandated price controls as at 31 December 2004, 31 December 2005 and 31 December 2006 respectively (being a different mix of products in each year) represented 39.7%, 38.4% and 32.8% to the Group's total annual turnover in the three years ended 31 December 2004, 2005 and 2006, respectively.

The table below sets out information relating to six selected antibiotics finished products produced by the Group which achieved a top five ranking when each was compared to the same type of products purchased by a sample of 257 hospitals in the PRC (the "Sample Hospitals") in 2004, 2005 and 2006 based on a survey conducted by Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心) (being an Independent Third Party). The six selected antibiotics finished products, together, accounted for 33.8%, 34.8% and 29.6% of the Group's total turnover in the three years ended 31 December 2004, 2005 and 2006, respectively.

			Year ended 31 December 2004		Year ended 31 December 2005		Year ended 31 December 2006	
Antibiotics finished products	**Listed in the Insurance Catalogue**	**Brand name under which the type of product is sold by the Group**	**Percentage which the Group's products accounted for among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Ranking among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Percentage which the Group's products accounted for among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Ranking among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Percentage which the Group's products accounted for among the same type of antibiotics finished products purchased by the Sample Hospitals**	**Ranking among the same type of antibiotics finished products purchased by the Sample Hospitals**
Semi-synthetic penicillin type								
Oral Ampicillin	No	安必仙	85.4%	1	84.2%	1	90.5%	1
Oral Amoxicillin	Yes	阿莫仙	50.5%	1	65.5%	1	65.3%	1
Cephalosporins type								
Oral Cefuroxime Axetil	Yes	聯邦賽福欣	9.7%	4	13.2%	4	16.4%	4
Cefoperazone Sodium for injection	Yes	賽福必	6.8%	3	5.6%	5	7.1%	5
β-*lactamase type*								
Tazobactam Sodium and Piperacillin Sodium for injection	Yes	聯邦他唑仙	22.2%	2	24.7%	1	22.5%	1
Amoxicillin and Clavulanate Potassium for injection	Yes	強力阿莫仙	22.9%	2	31.4%	2	30.2%	2

Source: Development Centre of Science and Technology of the Chinese Pharmaceutical Association (中國藥學會科技開發中心)

The Group produces three types of intermediate products, namely 6-APA, 7-ACA and T-octylammonium clavulanate which are processed into the three types of bulk medicine, namely semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors. Semi-synthetic penicillin and cephalosporins bulk medicine are used to produce semi-synthetic penicillin and cephalosporins antibiotics finished products respectively; while semi-synthetic penicillin or cephalosporins type bulk medicine is mixed with β-lactamase inhibitor type bulk medicine to produce β-lactamase inhibitor antibiotics finished products.

The Group sells its finished products to pharmaceutical distributors and its intermediate products and bulk medicine to distributors and other pharmaceutical manufacturers. As at 31 December 2006, the Group had 800 sales representatives who were responsible for the sales of the Group's antibiotics and other finished products and were stationed among the Group's 24 sales offices located throughout the PRC. The Group also had 20 sales representatives who were responsible for sales of its intermediate products and bulk medicine as at 31 December 2006.

The Group's five production plants are located in Zhuhai, Zhongshan and Kaiping in Guangdong Province and Chengdu in Sichuan Province in the PRC as well as Hong Kong. Those plants, together, occupy a total site area of approximately 717,160.75 sq.m. The Group carries on the upstream production of intermediate products at its production plant in Chengdu; the mid-stream production of bulk medicine in Zhuhai; and the downstream production of antibiotics finished products in Zhongshan and Hong Kong. The Group also produces its non-antibiotics finished products such as cough syrup and anti-allergy medicine in Zhongshan. The production plant in Kaiping specialises in producing capsule casings.

The Group has obtained GMP certification for all its production workshops in Zhongshan and Zhuhai in accordance with the regulatory requirements in the PRC. Those requirements do not apply to the Group's production plants in Chengdu and Kaiping which are engaged in the production of intermediate products and capsule casings, respectively. The legal advisers as to PRC law of the Company have confirmed that manufacturers engaging in the production of intermediate products or capsule casings in the PRC are not subject to the GMP certification prescribed under the "Notice on the Supervision and Implementation of Good Manufacturing Practice", details of which are set out in the paragraph headed "GMP certification" in the section headed "Regulatory Framework" of this prospectus. The Group has obtained a Certificate for Manufacturer from the Pharmacy and Poisons Board in Hong Kong for its production plant in Hong Kong which has been issued on the basis of compliance with good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation.

The Group undertakes research and development both on its own and in collaboration with universities in the PRC or other medical research institutions such as the chemical engineering department of Tsinghua University (清華大學) and the Sichuan Industrial Institute of Antibiotic of China National Pharmaceutical Group Corporation (中國醫藥集團總公司 四川抗菌素工業研究所) in the PRC. The Group's research and development activities focus on both improving product quality and production efficiency as well as developing new products.

The Group has obtained or is currently in the process of applying for the following registrations or certificates in relation to its products outside the PRC:

Product	Type of registration or certificate obtained or being applied for	Regulatory body	Purpose of registration or certificate
Amoxicillin bulk substance	Drug Master File Type II (no. DMF 15377)	FDA (U.S.)	The Drug Master File may be used to support a new drug application
Amoxicillin trihydrate	Certificate of Suitability of the Monographs of the European Pharmacopoeia (under application)	European Directorate for the Quality of Medicines (EDQM)	This certificate may be used to demonstrate the compliance with the relevant monographs of the European Pharmacopoeia in support of an application for market authorisation
	Pharmaceutical Approval Certificate (藥品許可證)	Department of Health, Executive Yuan (行政院衛生署) (Taiwan)	This certificate is required to allow the product to be imported into Taiwan
Cefoperazone sodium USP	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Sulbactam sodium USP	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Tazobactam sodium and Piperacillin sodium	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Ceftriaxone sodium USP	Registration Certificate	Central Drugs Standard Control Organisation (India)	This certificate is required to allow the product to be imported into India
Amoxicillin trihydrate	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia
Ampicillin trihydrate	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia

Product	Type of registration or certificate obtained or being applied for	Regulatory body	Purpose of registration or certificate
Cefotaxime sodium	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia
Ceftriaxone sodium	Registration Certificate	Federal Service for Supervision in the Sphere of Healthcare and Social Development (Russia)	This certificate is required to allow the product to be imported into Russia

The Group has received many awards from governmental departments and industry organisations in the PRC in recognition of its achievements in product quality and technological development and success in brand development, further details of which are set out in the paragraph headed "Awards" in this section.

OPPORTUNITIES

There has been significant growth in health care expenditure in the PRC in recent years. Based on information in the China Statistical Extracts 2006 (二零零六年中國統計摘要) published by China Statistics Press (中國統計出版社), total expenditure for public health in China in 2004 reached approximately RMB759 billion (equivalent to approximately HK$770 billion), while per capita total expenditure on health increased from approximately RMB361.1 (equivalent to approximately HK$366.5) in 2000 to approximately RMB583.9 (equivalent to approximately HK$592.7) in 2004, representing a double digit CAGR of approximately 12.8%. This is much higher than the growth in per capital total expenditure on health in the United States over the same period, which recorded a CAGR of approximately 7.4%. According to forecasts for the global pharmaceutical market published by IMS Health, the PRC pharmaceutical market is expected to grow at 15% to 16% in 2007, while the US market is expected to grow at 4% to 5% and the global pharmaceutical market at 5% to 6%.

In the Pharmaceutical Industry Guidance Opinion issued in June 2006 which sets out key policy objectives for the development of the PRC pharmaceutical industry for the five-year period from 2006 to 2010, the key areas of reform and development identified by the PRC Government include the review of the price control policies and measures on pharmaceutical products as well as the extension of medical services and state medical insurance coverage.

In "The Opinion on Further Regulating Market Pricing in the Drugs and Medical Services Market"《關於進一步整頓藥品和醫療服務市場價格秩序的意見》issued by the PRC Government in May 2006, the PRC Government indicated that it may consider raising the prescribed retail ceiling prices of certain pharmaceutical products whose prices have been reduced to a level that is not sufficiently commercially attractive for manufacturers to continue producing. To limit the profit margins derived from the sales of pharmaceutical products, the PRC Government has already mandated that medical institutions (including hospitals) at county and higher levels may not sell pharmaceutical products at a price greater than 15% above the price at which they purchased such products. The PRC Government plans to increase investments in hospitals with a view to

encouraging hospitals to cease relying on charging high margin on medicine as a major means of funding their operating expenses. The Directors believe that these measures will help reduce the pressure of price reduction on manufacturers in respect of products that are subject to government-mandated price controls, from which the Group will also be able to benefit.

Pursuant to the "State Council Guidance Opinion relating to the Development of Community Health Services in Cities" (《國務院關於發展城市社區衛生服務的指導意見》) issued in February 2006, the State Basic Medical Insurance Scheme is extended to cover the reimbursement of the cost of medical consultation and medicine at community health service institutions in the PRC that meet certain prescribed requirements as part of the PRC Government's efforts to promote their use. The Directors believe that this development may create new opportunities for the Group as the extension of the State Basic Medical Insurance Scheme is likely to result in increased use of community health service institutions by the public and hence, increased demand for pharmaceutical products from those institutions.

Another key area of reform and development for the pharmaceutical industry in the PRC outlined in the Eleventh Five-year Plan is the expansion of the New Rural Cooperative Medical Scheme. One of the objectives stated in the "Notice on Accelerated Promotion of Test-Point Work for the New Rural Cooperative Medical Scheme" (《關於加快推進新型農村合作醫療試點工作的通知》) issued in January 2006 is to extend the coverage of the New Rural Cooperative Medical Scheme to virtually all rural residents in the PRC by 2010. The PRC Government has also committed to increasing funding for the New Rural Cooperative Medical Scheme so that participants will benefit from reimbursement of an increased level of medical expenses. Funding contribution at both central and local government levels to the New Rural Cooperative Medical Scheme has increased from an aggregate amount of RMB30 (equivalent to approximately HK$30) (including RMB10 contributed by each participant) per year to RMB50 (equivalent to approximately HK$51) (including RMB10 contributed by each participant) per year in respect of each participant under the scheme with effect from 2006. Given the significant size of the rural population in the PRC, the Directors believe that such commitment from the PRC Government will further enhance opportunities in the rural market which the Group has already started developing for its antibiotics and other finished products.

At the fifth meeting of the tenth National People's Congress held in March 2007, Premier Wen Jiabao stated in the "Government's Report" (《政府工作報告》) that the PRC Government will accelerate the reform and development of health services in the PRC. It will focus on building a basic health care system that covers both rural and urban areas. The PRC Government will actively promote the implementation of the New Rural Cooperative Medical Scheme. Test points will be expanded to cover over 80% of the counties in the PRC. The central government will make available subsidies of RMB10.1 billion in 2007, an increase of RMB5.8 billion over subsidies made available in 2006. The central government has also budgeted for social security spending of RMB201.9 billion in 2007, representing an increase of RMB24.7 billion over 2006. The government's objective is to strengthen the rural health service network at county, village and town level so that residents in rural areas will have access to safe, efficient, convenient and low cost medical health services. The government will also accelerate the development of the community-based new urban health service system where the emphasis will be placed on the development of community health services.

As at the end of 2006, the trial implementation of the New Rural Cooperative Medical Scheme had been extended to cover 1,451 counties in the PRC, which accounted for 50.7% of the total number of counties in the PRC. The scheme covered approximately 410 million farmers or approximately 47.2% of the total population engaged in the agricultural industry in the PRC.

While the Group had to operate in a highly challenging environment over the Track Record Period due primarily to government price reductions and more intense competition, the Directors remain highly confident in the Group's development in the PRC. The Directors believe that the continued high growth of the PRC economy and total public health expenditure and per capita health expenditure in the PRC as well as the PRC Government's further commitment in the development of public health services in both urban and rural areas will bring new opportunities to the Group.

PRINCIPAL STRENGTHS

The Directors consider that the Group's principal strengths are:

Major manufacturer of generic antibiotics finished products in the PRC with established brand name recognised for high quality products

The Group is one of the major manufacturers of generic antibiotics products in the PRC. As a large scale producer, the Group enjoys the benefit of an established and extensive sales and distribution network in the PRC as well as the ability to continually improve its cost competitiveness through developing economies of scale in production.

The Group sells its intermediate products, bulk medicine and finished products under its  trade mark. The Directors believe that the Group has built up strong market recognition of its brand name in the PRC primarily on the basis of the quality of its products and customer service. The Directors consider that the quality of the Group's products and their price competitiveness have been key factors in helping the Group develop sales to overseas pharmaceutical manufacturers and distributors such as DSM Anti-infectives India Ltd., HELM AG, Daewoong Chemical Co., Ltd. and Indukern Chemie A.G.. The Directors believe that brand recognition will continue to be one of the key factors enabling the Group to distinguish its products and to maintain its competitive advantage in an intensely competitive market such as the PRC.

The Group has received many awards in recognition of its achievements in product quality and technological development and success in brand development from various governmental departments and industry organisations in the PRC including Guangdong Provincial Quality Inspection Bureau (廣東省質量技術監督局) and Famous Pharmaceutical Brands Assessment Committee of Guangdong Province (廣東省醫藥行業名牌產品審定委員會).

The Group has also been involved in a wide range of charitable donations and sponsorships including the United Laboratories Medical Education Scholarship Programme (聯邦醫學教育獎學金計劃) between 1998 and 2003 and hosting or sponsoring educational or research seminars for medical practitioners and senior management staff at hospitals and medical institutions, which the Directors believe have helped build up the Group's reputation in the PRC.

Vertically integrated production operation gives the Group more flexibility to choose between producing its own supply of intermediate products and purchasing from third party suppliers and enhances its ability to produce the major types of bulk medicine for the production of its antibiotics finished products and is expected to allow the Group to exercise better, more direct control over quality and production costs

The completion of its new production plant in Chengdu provided the Group with the capability to supply the intermediate products required for its mid-stream production of bulk medicine. This new capability provides the Group with more flexibility to choose between producing its own supply of intermediate products or, as with 7-ACA in 2006, purchasing from third party suppliers in the light of market conditions. It also significantly enhances the Group's ability to produce the major types of bulk medicine required for its downstream production of antibiotics finished products. The Directors believe that the Group's vertically integrated production operation, when fully utilised, is expected to allow it to exercise better, more direct control over quality and production costs and that, depending upon the then-current market price for certain intermediate products and bulk medicine, it may also allow the Group to achieve a lower cost structure than other pharmaceutical producers in the PRC who are engaged in the production of similar antibiotics products but do not have the benefit of this type of vertical integration.

With a stable supply of intermediate products and bulk medicine, the Group is able to reduce its exposure to market fluctuations in the supply, price or quality of penicillin G potassium salt, 7-ACA and β-lactamase inhibitors which the Group had experienced in the past when it had to rely solely on purchasing those materials from third party suppliers.

With its vertically integrated production operation, the Group is able to exercise quality control over the entire production process for 6-APA, 7-ACA, T-octylammonium clavulanate and β-lactamase inhibitors. The Directors believe that this control may further enhance the quality and lower the cost of the Group's bulk medicine and antibiotics finished products.

The Group has adopted what it refers to as the "direct extraction method" in its production of 6-APA, which, the Directors believe, allows 6-APA to be produced by a shorter production process than is commonly used by other manufacturers in the PRC. The Directors believe that only a few of its major competitors in the PRC are able to apply such "direct extraction method" in their production. The Group has also adopted a production process known as enzyme catalysis (酶法) for 7-ACA which, the Directors believe, also allows a shorter production process for 7-ACA than is commonly used by other manufacturers in the PRC. These processes have enabled the Group to improve the efficiency of its production of both 6-APA and 7-ACA.

Extensive sales and marketing network providing strong market coverage in the PRC

The Group has established an extensive sales and marketing network in the PRC for its antibiotics and other finished products, comprising 24 sales offices with 800 sales representatives as at 31 December 2006 that cover all of the provinces, autonomous regions and directly-administrated municipalities in the PRC except the Tibet Autonomous Region and Inner Mongolia Autonomous Region. This network of sales offices, working together with distributors to whom the Group primarily sells its finished products, provides the Group with extensive market coverage and customer reach in the PRC. Through its sales offices, the Group also collects customer feedback on its products as well as local market intelligence. Apart from its 24 sales offices, the Group has also separately established a sales team for the sales and marketing of its intermediate products and bulk medicine.

While the Group has successfully built up its market share for its antibiotics and other finished products in major cities such as Shanghai and provinces such as Jiangsu, Zhejiang and Liaoning, the Directors consider that the Group's extensive sales and marketing network also provides a strong platform for the Group to develop sales in rural areas and its other less established markets such as Yunnan and Hunan. The Directors believe the PRC Government's recent initiative to improve public health service and medical insurance coverage in rural areas as well as continued improvements in living standards among the rural population will present increasing opportunities for the Group's antibiotics and other finished products.

Wide range of existing and potential products providing a strong basis for expansion and diversification and more flexibility in responding to changes in market conditions, including any future reductions of the government-mandated retail ceiling prices applicable to its antibiotics or other finished products

As at 31 December 2006, the Group has obtained Drug Registration Approvals in the PRC and Certificates of Drug/Product Registration in Hong Kong in relation to a wide range of products, of which 72 products were in production and 55 were not, which provide the Group with a strong reserve of potential products. The Group is currently applying for regulatory approval in the PRC to engage in the production of two penem type antibiotics finished products which it has developed. Penem type antibiotics are, to the knowledge of the Directors, the latest generation of antibiotics that have been introduced to the market and are more advanced than the three categories of antibiotics which the Group is currently producing. Subject to obtaining such approvals and to market conditions, the Group expects to launch this type of antibiotics finished products in the second half of 2007. To the Directors' knowledge, penem type antibiotics finished products are not currently widely produced by pharmaceutical manufacturers in the PRC and as at the Latest Practicable Date, only three pharmaceutical manufacturers have obtained Drug Registration Approvals in relation to penem type antibiotics finished products in the PRC. The Directors believe that the Group's early involvement in the production of penem type antibiotics finished products will provide it with an important competitive advantage for such product in the PRC.

The Group has also been seeking to diversify its product range to more non-antibiotics finished products, such as eye drops and cough syrup. The Group is currently applying for regulatory approval to produce a number of new products in the PRC including various eye drop products, one new cough medicine and two new medicine for influenza. For details in relation to products under development by the Group, please refer to the paragraph headed "Research and Development" in this section.

The Directors consider that the wide range of products which the Group is currently producing as well as those for which it has obtained Drug Registration Approval but has yet to commence production and the introduction of two penem type finished products and other new products will provide the Group with a strong basis for expansion and diversification in the future. The Group will also have more flexibility to respond to changes in market conditions, including any future reduction of the government-mandated retail ceiling prices applicable to certain of its antibiotics finished products. Among the measures adopted by the Group in the past to reduce the impact of price controls on certain of its antibiotics finished products was the introduction of new products or increase in production of other existing products which were not subject to such price reduction.

Success in the development of sales outside the PRC

For the three years ended 31 December 2004, 2005 and 2006, turnover derived from sales outside the PRC, totalled HK$118.6 million, HK$212.3 million and HK$445.8 million, accounted for 9.9%, 12.3% and 21.4% of the Group's total turnover, respectively. The Group's success in developing sales of its bulk medicine and, starting in 2005, to a lesser but increasing degree, its intermediate products, outside the PRC provides the Group with a strong platform for the further development of overseas sales, including for the Group's antibiotics finished products. The Directors consider that one of the Group's key competitive advantages in terms of overseas sales is its low production cost.

Experienced management and commitment to raising standards of internal control

Key members of the Group's management team including Mr Choy, the Chairman of the Group, have significant experience in the pharmaceutical industry in the PRC. Mr Choy is a visiting professor of Wuhan Tongji Pharmaceutical University (武漢同濟醫科大學) and also the Deputy Chairman of the board of directors of Shenyang Medical University (瀋陽藥科大學). Seven of the eight senior management members (excluding non-executive directors and independent non-executive directors) of the Group have a background in pharmaceutical or chemical industries. The Group has also benefited from the understanding of its senior management members of the needs and preferences of customers in the PRC pharmaceutical market. Their personal connections have also helped the Group establish and strengthen its relationships with governmental bodies in the pharmaceutical industry in the PRC.

The Directors consider the quality and stability of the Group's senior management to be one of the key factors behind the Group's success. All of the Group's current senior management members (excluding the independent non-executive directors) have been working for the Group for ten years or more.

BUSINESS STRATEGIES

The Directors have noted a certain level of consolidation among pharmaceutical manufacturers in the PRC in recent years and in particular, an increasing number of small-size manufacturers being taken over by larger manufacturers or eliminated through competition. The Directors expect that this trend will continue in the near future as the leading manufacturers seek to consolidate their market position. The Directors are of the view that the current market conditions in the PRC are best suited for the further development of larger scale manufacturers such as the Group who have an established market share, a recognised brand name nationwide, large scale production plants and an extensive sales and marketing network. The Group's overall objective is to become the leading and the largest generic antibiotics manufacturing enterprise in the PRC offering a wide spectrum of high-quality products. The Group's principal business strategies include:

Maximising the benefits of large scale production and vertical integration including the flexibility to source supplies from outside third parties, rather than manufacturing them internally, when economically advantageous

The new production plant in Chengdu provides the Group with capability to supply the 6-APA, 7-ACA and T-octylammonium clavulanate required for its semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors type bulk medicine production (though over the Track Record Period and through the Latest Practicable Date it continues to procure supplies of certain of these intermediate

products from outside third parties). This capability also provides the Group with an additional source of income through external sales of surplus intermediate products in excess of what is needed for its own downstream production. The Chengdu plant started generating a segment profit in 2006. The Group will focus on enhancing the production output and efficiency of the Chengdu plant in the near future.

The Group intends to maximise the benefits of large scale production and vertical integration by seeking to improve its cost competitiveness through developing economies of scale in production. The Group intends to focus on both expanding its production of, and further enlarging its market share for, antibiotics finished products in the PRC and at the same time increasing its sales of intermediate products and bulk medicine to third party customers. Given that it now has the capability to control the entire production process from intermediate products to antibiotics finished products, the Group will seek to further improve product quality and production efficiency and to reduce production costs. The Group will also seek to increase the overall utilisation rate of its production plants.

Because the Group's production facilities at its production plant in Chengdu can be used interchangeably for the production of 6-APA, 7-ACA and T-octylammonium clavulanate, the Group may, from time to time, based on market conditions, assess and adjust the use of such production facilities, and if necessary, shift among the production of these three intermediate products, where it is economically advantageous to do so. For example, due to market conditions becoming more favourable in the first few months of 2007, the Group intends to convert in the second half of 2007 some of its facilities currently producing 7-ACA to produce 6-APA. If implemented, this shift may increase the Group's production capacity for 6-APA by 578 tonnes in the second half of 2007, bringing the Group's annual designed production capacity for 6-APA to 4,045 tonnes, based on the current annual designed production capacity of 3,467 tonnes.

Enlarging its market share in urban areas and expanding its market coverage in rural areas in the PRC and increasing sales outside the PRC

The Group intends to further enlarge its market share in urban areas in the PRC such as Shanghai and major cities in provinces such as Jiangsu, Zhejiang and Liaoning where the Group already has an established market presence. In these markets, the Group intends to focus on increasing its market share for antibiotics and other finished products, particularly higher margin products which are not subject to price controls by the PRC Government. The Group will also focus on new opportunities which may arise in connection with the PRC Government's initiative to promote the use of community health services institutions in urban areas pursuant to the "State Council Guidance Opinion relating to the Development of Community Health Services in Cities" (《國務院關於發展城市社區衛生服務的指導意見》) and to improve medical services in rural areas pursuant to the "Guidance Opinion relating to the Development of Community Health Services in Rural Areas" (《關於加快推進新型農村合作醫療試點工作的通知》) issued by the State Council.

While sales in the PRC currently account for a significant majority of the Group's total annual turnover, the Group plans to continue to increase its sales outside the PRC. With the commencement of production of intermediate products at its new plant in Chengdu, the Directors expect that the Group's production capacity for intermediate products, bulk medicine and antibiotics finished products will enable the Group to cover not only its expansion in the PRC but also the development of the markets outside the PRC. The Group has started actively to develop sales in markets such as Germany, Korea and India. The Group plans to increase its exposure in the international market by increasing its participation in international pharmaceutical trade fairs and conferences.

Further strengthening its sales and marketing network, especially in rural areas in the PRC

In support of its strategy to further enlarge its market share for antibiotics and other finished products in its established markets in the PRC and to expand its market coverage of areas outside those markets, the Group plans to continue to recruit additional sales staff for the sales and marketing of its finished products. The additional sales staff will be assigned to the Group's 24 existing sales offices and any new sales offices which may be established.

The Group will continue to work closely with pharmaceutical distributors located in different parts of the PRC to expand the sales and marketing of its antibiotics and other finished products. Given the vast geographical expanse of the PRC market, the Directors consider that establishing long term business relationships with pharmaceutical distributors in different locations and working closely with them to sell and market the Group's products will remain to be an important aspect of the Group's sales strategies.

The Group will continue to co-operate closely with distributors in sales and marketing activities, including maintaining direct contact with hospitals, clinics, pharmacies and other customers to whom the distributors sell, and hosting seminars which the distributors will participate to promote and explain the use and effect of the Group's products. The Directors consider the Group's active participation in such sales and marketing activities to be crucial, particularly in assisting the distributors to provide accurate and comprehensive information on the Group's products to their customers.

The Group also plans to further establish its presence in the rural markets of the PRC through increasing marketing efforts in rural areas in the PRC. As the market is less developed in rural areas than in urban areas, the Group will attempt to reduce the number of intermediaries involved in the sale of its antibiotics and other finished products in rural markets. Through adopting a simpler distribution structure, the Group will seek to improve its margins on sales in those markets.

Expanding its product range and introducing new antibiotics and other products

The Group will further expand its product range by introducing both new antibiotics and other products.

As at 31 December 2006, the Group has obtained Drug Registration Approvals in the PRC in respect of 89 finished products, 37 of which were not yet in production. As at the Latest Practicable Date, the Group has obtained Certificates of New Medicine for nine products whose protection or transition periods had not yet expired, three of which were not yet in production. Depending on market conditions, the Group may start production and sale of some of these products in future. In addition, the Group had a total of 26 finished products under development which were (i) pending Drug Registration Approvals or (ii) had obtained approvals for clinical trial or undergoing clinical trial in the PRC as at the Latest Practicable Date.

The Directors believe bio-medicine has become more widely used in the PRC in recent years and that this increase in usage is mainly attributable to lower risk of side effects generally associated with bio-medical products than chemical medicine. The Group is currently engaged in the research and development of four bio-medical products, including an insulin for the treatment of diabetes, a medicine for the treatment of Alzheimer's disease and a vaccine for the treatment of prostate cancer.

In October 2005, the Group obtained an exclusive licence for a term of 20 years from an Independent Third Party to use certain patented technology for the production of a medicine for the treatment of hepatitis B in the PRC. The Group has applied for regulatory approval to engage in the production of this medicine in the PRC.

Further improving product quality and customer service

In a highly competitive market such as the PRC, one of the Group's key strategies is to seek to distinguish its products from its competitors through high standards in product quality and customer service. The Group will seek to further enhance the quality of its products by raising quality control standards, improving production techniques, upgrading its equipment, educating and training its staff and strengthening its research and development capability.

The Group places equal emphasis on enhancing the quality of its customer service, particularly in relation to communication with customers and monitoring their feedback on the Group's products.

HISTORY AND DEVELOPMENT

The Group's business was founded in 1990 when the Choy Family acquired United Laboratories Hong Kong. Mrs Choy subscribed for one new share in United Laboratories Hong Kong and Mr Choy acquired two existing shares at their par value of HK$10 each from two Independent Third Parties. Apart from Mr Choy who was engaged in the trading of pharmaceutical products prior to such acquisition, none of the other members of the Choy Family was engaged in any business prior to such acquisition. In 1991, the Group began to develop sales of amoxicillin capsules to customers in the PRC. Amoxicillin capsules have remained to be one of the Group's major antibiotics finished products.

The Group first established its presence in the PRC when it set up United Laboratories Zhuhai as a sino-foreign equity joint venture in July 1993. In 1994, the Group began to expand its sales and marketing network in the PRC by recruiting additional sales and marketing staff. Since then, the total number of the Group's sales offices in the PRC has grown to 24 which are located throughout the PRC.

The Group, through the Zhongshan Branch Company of United Laboratories Zhuhai, established a new production plant in Zhongshan, Guangdong Province, PRC and obtained a Drug Manufacturing Enterprise Certificate (藥品生產企業許可證) (the equivalent of the Drug Manufacturing Certificate at the time) to enable it to commence commercial production of antibiotics finished products in August 1996. In 1998, the Group commenced commercial sales in the PRC of amoxicillin capsules and ampicillin capsules produced at its Zhongshan production plant.

The Group took its first step towards vertical integration in its production of antibiotics finished products when United Laboratories Zhuhai established a new production plant in Zhuhai, Guangdong Province, PRC to engage in the production of antibiotics and non-antibiotics bulk medicine as well as 6-APA, an antibiotics intermediate product, from penicillin G potassium salt purchased from third party suppliers. In July 1998, the Group obtained a Drug Manufacturing Enterprise Certificate to enable it to commence commercial production at its Zhuhai plant.

In 1997 and 1998, the Group obtained GMP certification for all of its production plants then in operation in Zhongshan and Zhuhai, respectively.

In September 1997, the Group established Kingly Capsule to engage in the production of capsule casings at a production plant established in Kaiping, Guangdong Province, PRC. For the three years ended 31 December 2004, 2005 and 2006, approximately 40.1%, 46.2% and 47%, respectively of capsule casings sold by Kingly Capsule was made internally to other companies within the Group which used them for their production of finished products, while the remainder was sold to third party customers.

In June 2003, the Group completed the construction of an additional workshop at its production plant in Zhongshan for the production of antibiotics finished products. The Group obtained GMP certification for this new workshop in the same year.

In June 2003, the Group established United Laboratories Chengdu and in the following month commenced construction of a new production plant in Chengdu, Sichuan Province, PRC to undertake the production of the intermediate products 6-APA, 7-ACA and T-octylammonium clavulanate to further extend the level of vertical integration of its production operations.

After the Group started production of the intermediate product of T-octylammonium clavulanate at its production plant in Chengdu, it also began to produce β-lactamase inhibitor type bulk medicine at its production plant in Zhuhai in early 2006. This is a type of bulk medicine produced from T-octylammonium clavulanate which the Group previously had to purchase from third party suppliers.

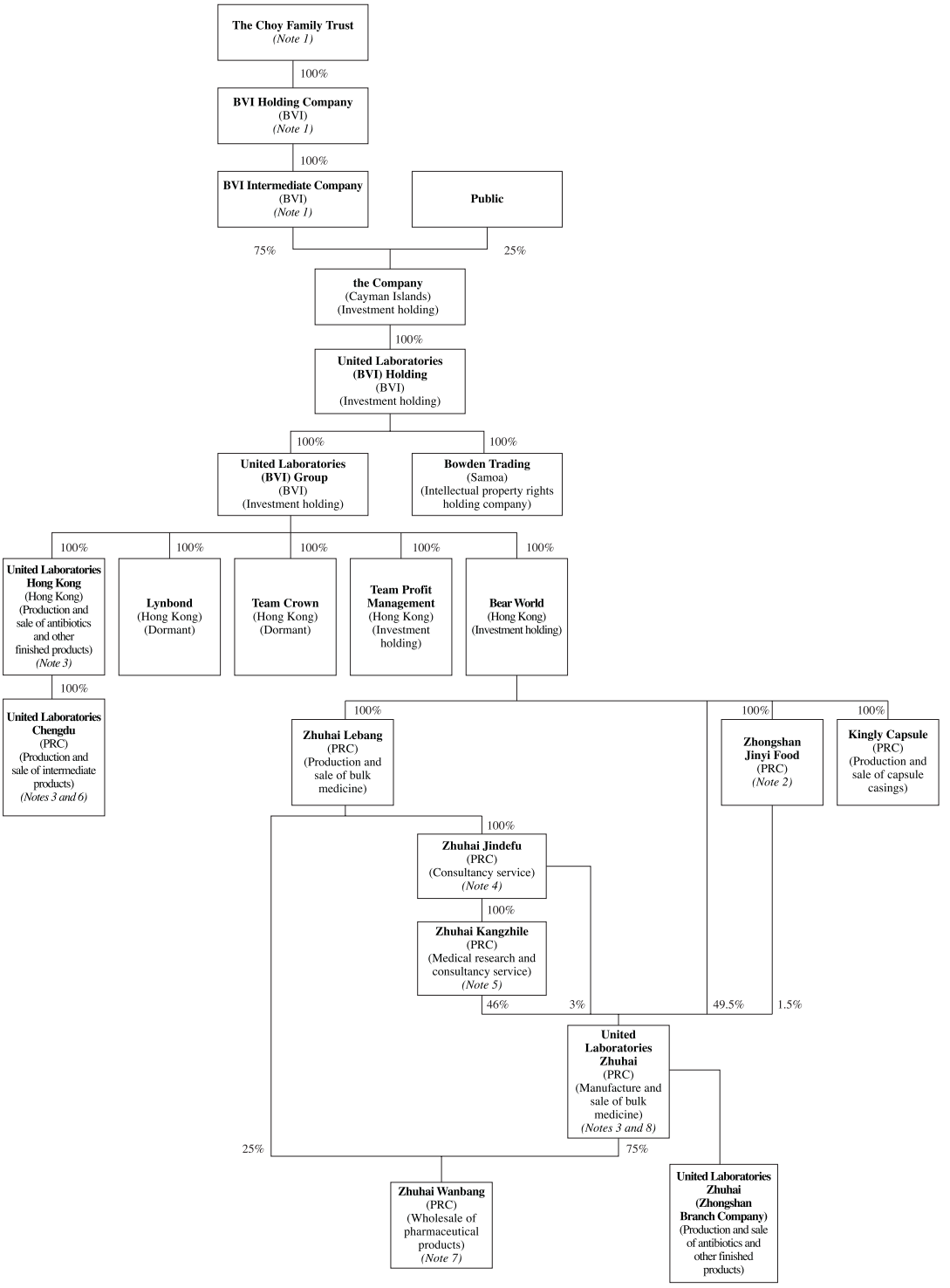
The Company was incorporated in the Cayman Islands as an exempted company on 6 March 2006. In May 2007, the Group completed the Reorganisation in preparation for the listing of the Shares on the Stock Exchange pursuant to which the Company became the holding company of the Group and a wholly-owned subsidiary of BVI Intermediate Company, a company which is indirectly wholly and beneficially owned by The Choy Family Trust.

The Reorganisation also involved various transfers of the equity interests in Zhuhai Jindefu, Zhuhai Kangzhile, Zhuhai Wanbang and United Laboratories Zhuhai pursuant to which Zhuhai Jindefu, Zhuhai Kangzhile, Zhuhai Wanbang, United Laboratories Chengdu and United Laboratories Zhuhai became wholly-owned by the Group. Please refer to the paragraph headed "Corporation reorganisation" in Appendix V to this prospectus for further details of the Reorganisation.

The PRC legal advisers to the Company have confirmed that in connection with the Listing: (i) the Company is not required to comply with the requirement to obtain approval from the China Securities Regulatory Commission (中國証券監督管理委員會) under part 3, chapter 4 of 《關於外國投資者併購境內企業的規定》 (the Measures Governing the Foreign Acquisition of Domestic Enterprise) relating to the use of special purpose companies (特殊目的公司) for an overseas listing; (ii) as the ultimate controlling shareholder of the Company is not a PRC company or a PRC individual and all members of the Group which are incorporated in the PRC are foreign-invested enterprises or subsidiaries of those enterprises, none of the Company's subsidiaries in the PRC are subject to the regulations prescribed under 《國家外滙管理局關於境內居民通過境外特殊目的公司融資及返程投資外滙管理有關問題的通知》 (Notice on Issues concerning Foreign Exchange Management in Financing by PRC Residents by Overseas Special Purpose Vehicle and Return-investments); and (iii) all approvals or permits required under PRC law in connection with each stage of the Reorganisation have been obtained.

CORPORATE STRUCTURE

The structure of the Group immediately after the completion of the Share Offer (and assuming that the Over-allotment Option is not exercised) is shown below:



Notes:

1. The Choy Family Trust is a discretionary trust established on 7 February 2007 pursuant to the deed of settlement executed on the same day and made between Mr Choy (as settlor) and DBS Trustee H.K. (Jersey) Limited (as trustee). The discretionary objects of The Choy Family Trust include Mrs Choy, Ms Choy, Mr Tsoi and Ms Shum. BVI Intermediate Company is wholly-owned by BVI Holding Company which, in turn, is beneficially owned by The Choy Family Trust. DBS Trustee H.K. (Jersey) Limited is holding the entire issued share capital of BVI Holding Company on trust for The Choy Family Trust.

2. Zhongzhan Jinyi Food was previously engaged in the manufacture and sale of food products. Zhongshan Jinyi Food ceased to carry on any business in 2002 as the Group began to focus on the development of its pharmaceutical business.

3. United Laboratories Zhuhai, United Laboratories Hong Kong and United Laboratories Chengdu are the three principal operating subsidiaries of the Company.

4. Zhuhai Lebang acquired the entire equity interest in Zhuhai Jindefu on 20 January 2006 at a consideration of HK$14,353,000 which was determined by reference to the net asset value of Zhuhai Jindefu. Zhuhai Jindefu then became a direct wholly-owned subsidiary of Zhuhai Lebang.

5. Zhuhai Jindefu acquired the entire equity interest in Zhuhai Kangzhile on 23 January 2006 (as to 13% from Ms Peng and as to 87% from Ms Shum). Zhuhai Kangzhile then became a direct wholly-owned subsidiary of Zhuhai Jindefu.

6. United Laboratories Hong Kong acquired a 40% and 20% equity interest in United Laboratories Chengdu from United Laboratories Zhuhai on 24 July 2003 and 16 February 2004 respectively. Following the above acquisitions, United Laboratories Chengdu became a direct wholly-owned subsidiary of United Laboratories Hong Kong.

7. United Laboratories Zhuhai and Zhuhai Lebang acquired all the rights and obligations attached to the 75% and 25% equity interest in Zhuhai Wanbang respectively on 4 September 2006 at a total consideration of HK$11,604,000 which was determined by reference to the net asset value of Zhuhai Wanbang. United Laboratories Zhuhai and Zhuhai Lebang became registered shareholders of Zhuhai Wanbang on 14 October 2006.

8. Bear World acquired a 1.5% shareholding in United Laboratories Zhuhai from Mr Tsoi on 12 December 2006. Together with the 48% shareholding already held by it in United Laboratories Zhuhai, Bear World became the holder of a 49.5% shareholding in United Laboratories Zhuhai. Following the above acquisition, United Laboratories Zhuhai became an indirect wholly-owned subsidiary of the Group (through the direct shareholding of 49.5% held by Bear World, 3% held by Zhuhai Jindefu, 46% held by Zhuhai Kangzhile and as to 1.5% held by Zhongshan Jinyi Food).

9. Details of acquisitions of subsidiaries made by the Group during the Track Record Period are contained in note 32 in the accountants' report set out in Appendix I to this prospectus.

PRODUCTS

Overview

As at the Latest Practicable Date, the Group mainly produced three categories of antibiotics finished products, namely semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors. These products are mainly used for the treatment of microbial infections, including respiratory infections, digestive system infections, urinary system infections and skin and soft tissue infections. As at 31 December 2006, 32 of the 52 finished products produced by the Group in the PRC and three of the four finished products in production in Hong Kong (two of which were also in production in the PRC) were listed in the Insurance Catalogue. Patients covered by the State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme are entitled to partial reimbursement of the costs of these products (the percentage of which varies in different regions in the PRC). Most of those 32 products were antibiotics finished products and included one of the Group's best selling products, amoxicillin capsules.

The Group produces three types of intermediate products namely, 6-APA, 7-ACA and T-octylammonium clavulanate which are processed into the three types of bulk medicine: semi-synthetic penicillin, cephalosporins and β-lactamase inhibitors, respectively. Semi-synthetic penicillin and cephalosporins bulk medicine are used to produce semi-synthetic penicillin and cephalosporins antibiotics finished products respectively; while semi-synthetic penicillin or cephalosporins type bulk medicine is mixed with β-lactamase inhibitor type bulk medicine to produce β-lactamase inhibitor antibiotics finished products.

Apart from antibiotics finished products, bulk medicine and intermediate products, the Group also produces and sells smaller amounts of cough syrup, anti-allergy medicine as well as capsule casings.

As at the Latest Practicable Date, the Group had a total of 26 finished products under development which were (i) pending Drug Registration Approvals or (ii) had obtained approvals for clinical trial or undergoing clinical trial in the PRC.

The major products produced by the Group as at 31 December 2006 are listed in the table below:

Intermediate products

Intermediate products	**Type of bulk medicine for which it is used to produce**	**Percentage of the Group's total turnover in the year ended 31 December 2004** *(Note 3)*	**Percentage of the Group's total turnover in the year ended 31 December 2005** *(Note 3)*	**Percentage of the Group's total turnover in the year ended 31 December 2006** *(Note 3)*
6-APA *(Note 1)*	Semi-synthetic penicillin	0%	3.1%	9.0%
7-ACA *(Note 2)*	Cephalosporins	0%	0%	0.5%
T-octylammonium clavulanate	β-lactamase inhibitors	0%	0%	0%

Notes:

1. Not including 6-APA produced from penicillin G potassium salt purchased from third party suppliers before the Group commenced commercial production of 6-APA at its production plant in Chengdu.

2. The Group commenced production for sale to third party customers of 7-ACA in 2006.

3. Calculation of such percentages includes only sales by the Group to third party customers.

Bulk medicine

Bulk medicine	Examples of antibiotics finished products for which it is used to produce	Percentage of the Group's total annual turnover in the year ended 31 December 2004 *(Note)*	Percentage of the Group's total annual turnover in the year ended 31 December 2005 *(Note)*	Percentage of the Group's total annual turnover for the year ended 31 December 2006 *(Note)*
Semi-synthetic penicillin type				
	Amoxicillin capsules Ampicillin capsules	25.9%	23.6%	28.6%
Cephalosporins type				
	Ceftiaxone sodium for injection (third generation) Cefotaxime sodium for injection (third generation) Cefoperazone sodium for injection (third generation)	26.3%	27.0%	21.1%
β-lactamase inhibitor type				
	Amoxicillin and clavulanate potassium for injection	1.1%	1.5%	2.1%

Note: Calculation of such percentage includes only turnover derived from sales by the Group to third party customers.

Antibiotics finished products

Antibiotics finished products	Name of product	Registered trade mark(s) under which the product is sold by the Group	Main curative effects	Percentage of the Group's total turnover in the year ended 31 December 2004 *(Note)*	Percentage of the Group's total turnover in the year ended 31 December 2005 *(Note)*	Percentage of the Group's total turnover for the year ended 31 December 2006 *(Note)*
Semi-synthetic penicillin type						
	Amoxicillin capsules	联邦阿莫仙 (for products produced by United Laboratories Zhuhai (Zhongshan Branch Company) 阿莫仙 (for products produced by United Laboratories Hong Kong)	Urogenital tract infections, lower respiratory tract infections, ear, nose and throat infections and skin and soft tissue infections	11.7%	13.5%	11.5 %
	Amoxicillin granules	联邦阿莫仙 (for products produced by United Laboratories Zhuhai (Zhongshan Branch Company) 阿莫仙 (for products produced by United Laboratories Hong Kong)	Respiratory tract infections, urogenital tract infections, skin and soft tissue infections	2.1%	1.6%	1.3%
	Ampicillin capsules	联邦安必仙 (for products produced by United Laboratories Zhuhai (Zhongshan Branch Company) 安必仙 (for products produced by United Laboratories Hong Kong)	Respiratory tract infections, urinary system infections, soft tissue infections and digestive tract infections	8.1%	9.5%	8.0%

Antibiotics finished products	Name of product	Registered trade mark(s) under which the product is sold by the Group	Main curative effects	Percentage of the Group's total turnover in the year ended 31 December 2004 *(Note)*	Percentage of the Group's total turnover in the year ended 31 December 2005 *(Note)*	Percentage of the Group's total turnover for the year ended 31 December 2006 *(Note)*
Cephalosporins type						
	Cefuroxime axetil tablets (second generation)	联邦赛福欣	Lower respiratory tract infections, upper respiratory tract infections, skin and soft tissue infections and gonorrhea	0.5%	0.5%	1.3%
β-lactamase inhibitor type						
	Piperacillin sodium and tazobactam sodium for injection	联邦他唑仙	Appendicitis, peritonitis, pneumonia, skin and soft tissue infections, gynaecological infections	3.9%	4.3%	4.1%
	Amoxicillin and clavulanate potassium for injection	强力阿莫仙	Upper and lower respiratory tract infections, tympanitis, paranasal sinusitis, skin and soft tissue infections and urinary tract infections	4.7%	3.8%	2.7%
	Amoxicillin and clavulanate potassium tablets	强力阿莫仙	Lower respiratory tract infections, tympanitis, paranasal sinusitis, skin and soft tissue infections and urinary tract infections	1.1%	0.8%	0.6%

Note: Calculation of such percentage includes only turnover derived from sales by the Group to third party customers.

Non-antibiotics finished products

Non-antibiotics finished products	Name of product	Trade name or registered trade mark under which the product is sold by the Group	Main curative effects	Percentage of the Group's total turnover in the year ended 31 December 2004 *(Note)*	Percentage of the Group's total turnover in the year ended 31 December 2005 *(Note)*	Percentage of the Group's total turnover for the year ended 31 December 2006 *(Note)*
Cough syrup						
	Oral Compound Codeine Phosphate	新泰洛其	Relieving symptoms of cough, phlegm cough, snuffle, sniveling, sneezing, muscle ache, headache and weakness caused by upper respiratory tract infections, etc.	2.5%	2.9%	2.7%
	Oral Potassium Guaiacolsulfonate and Codeine Phosphate	联邦克立安	Relieving symptoms of cough, phlegm cough, snuffle, puffing, sneezing and fever caused by upper respiratory tract infections, etc.	1.7%	1.5%	1.3%

Note: Calculation of such percentage includes only turnover derived from sales by the Group to third party customers.

Other products

	Percentage of the Group's total turnover in the year ended 31 December 2004 *(Note)*	Percentage of the Group's total turnover in the year ended 31 December 2005 *(Note)*	Percentage of the Group's total turnover for the year ended 31 December 2006 *(Note)*
Capsule casings	1.5%	1.1%	0.8%

Note: Calculation of such percentage includes only turnover derived from sales by the Group to third party customers.

The bulk medicine and finished products in respect of which the Group had obtained Drug Registration Approvals and which the Group was producing in the PRC as at 31 December 2006 are listed below (Drug Registration Approvals are not required to be obtained by the Group for its intermediate products and capsule casings under PRC law):

Bulk medicine

No.	Product name	Type	Date on which Drug Registration Approval was granted	Date on which Drug Registration Approval will expire
1	Amoxicillin	Penicillin type	24 May 1996	17 December 2007
2	Ampicillin	Penicillin type	24 May 1996	17 December 2007
3	Cefotaxime Sodium (Third Generation)	Cephalosporins type	30 December 1998	17 December 2007
4	Tazobactam	Enzyme inhibiting type	14 July 1999	17 December 2007
5	Cefoperazone Sodium (Third Generation)	Cephalosporins type	14 July 2000	17 December 2007
6	Piperacillin	Penicillin type	28 December 2000	17 December 2007
7	Cefuroxime Axetil (Second Generation)	Cephalosporins type	5 February 2001	17 December 2007
8	Sulbactam Sodium	Enzyme inhibiting type	10 April 2001	17 December 2007
9	Amoxicillin Sodium	Penicillin type	22 August 2001	17 December 2007
10	Sulbactam Pivoxyl	Enzyme inhibiting type	18 September 2001	17 December 2007
11	Ceftazidime (Third Generation)	Cephalosporins type	16 October 2002	15 October 2007
12	Amoxicillin Sodium and Clavulanate Potassium	Enzyme inhibiting type	19 October 2005	18 October 2010
13	Cefpirome Sulfate (Fourth Generation)	Cephalosporins type	28 December 2005	27 December 2010
14	Clavulanate Potassium	Enzyme inhibiting type	28 December 2005	27 December 2010
15	Clavulanate Potassium and Avicel	Enzyme inhibiting type	30 December 2005	29 December 2010
16	Ampicillin Sodium	Penicillin type	8 February 2006	7 December 2011
17	Cefuroxime Sodium (Second Generation)	Cephalosporins type	26 April 2006	25 April 2011
18	Ticarcillin Disodium	Penicillin type	13 June 2006	12 June 2011
19	Ceftriaxone Sodium (Third Generation)	Cephalosporins type	30 December 1998	15 June 2011

Finished products

No.	Product name *(Note 1 and 2)*	Whether listed in the Drugs Pricing Catalogue and subject to price controls by the PRC Government	Whether listed in Insurance Catalogue *(Note 1)*	Dosage form	Packaging specification	Date on which Drug Registration Approval was granted	Date on which Drug Registration Approval will expire
1	Amoxicillin Capsules*	Yes	Yes	Capsule	0.25g x 24	24 May 1996	15 August 2007
2	Ampicillin Capsules	Yes	No	Capsule	0.25g x 24	24 May 1996	17 December 2007
3	Amoxicillin Granules*	Yes	Yes	Granule	0.125g x 12	24 May 1996	17 April 2008
		Yes	Yes	Granule	0.125g x 24		
4	Cefotaxime Sodium for Injection*	Yes	Yes	Injection	1.0g x 10	24 May 1996	15 August 2007
5	Cefoperazone Sodium for Injection**	Yes	Yes	Injection	1.0g x10	24 May 1996	15 August 2007
6	Compound Codeine Phosphate Oral Solution	No	No	Oral solution	120ml	26 May 1997	15 August 2007
7	Cefradine for Injection**	Yes	Yes	Injection	1.0g x 10	29 December 1997	15 August 2007
8	Cefazolin Sodium for Injection*	Yes	Yes	Injection	1.0g x 10	20 January 1998	15 August 2007
9	Glipizide Tablets**	Yes	Yes	Tablet	5mg x 48	31 July 1998	15 August 2007
10	Ceftriaxone Sodium for Injection**	Yes	Yes	Injection	1.0g x 10	30 December 1998	15 August 2007
11	Aciclovir Tablets*	Yes	Yes	Tablet	0.1g x 24	31 December 1998	15 August 2007
12#	Ibuprofen Sustained Release Capsules**	Yes	Yes	Capsule (modified release)	0.3g x 12	31 December 1998	15 August 2007
		Yes	Yes	Capsule (modified release)	0.3g x 24		
13	Betamethasone Ointment	Yes	No	Cream	0.10%	10 April 1999	15 August 2007
14#	Miconazole Nitrate Ointment	Yes	No	Cream	2%	10 April 1999	15 August 2007
15	Azithromycin Dispersible Tablets**	Yes	Yes	Tablet (dispersed)	0.25g x 6	22 June 1999	17 December 2007
16	Potassium Guaiacolsulfonate and Codeine Phosphate Oral Solution	No	No	Oral solution	120ml	29 October 1999	17 December 2007
17	Levofloxacin Hydrochloride Capsules**	Yes	Yes	Capsule	0.1g x 10	11 December 1999	17 December 2007
18	Roxithromycin Capsules**	Yes	Yes	Capsule	0.15g x 12	30 December 1999	17 December 2007
19	Paracetamol Triprolidine Hydrochloride and Pseudoephedrine Hydrochloride Tablets	No	No	Tablet	12 pieces	13 January 2000	17 December 2007

No.	Product name *(Note 1 and 2)*	Whether listed in the Drugs Pricing Catalogue and subject to price controls by the PRC Government	Whether listed in Insurance Catalogue *(Note 1)*	Dosage form	Packaging specification	Date on which Drug Registration Approval was granted	Date on which Drug Registration Approval will expire
20#	Compound Methyl Salicylate Cream	No	No	Cream	15g	29 March 2000	28 January 2008
21	Amoxicillin Capsules*	Yes	Yes	Capsule	0.5g x 12	21 August 2000	15 August 2007
		Yes	Yes	Capsule	0.5g x 24		
22	Cefuroxime Axetil Tablets**	Yes	Yes	Tablet	0.25g x 6	5 February 2001	15 August 2007
		Yes	Yes	Tablet	0.25g x 12		
23#	Dextromethorphan Hydrobromide Oral Solution	No	No	Oral solution	120ml : 0.18g	29 June 2001	15 August 2007
24	Amoxicillin Sulbactam Pivoxil Tablets	Yes	No	Tablet	0.5g x 6	18 September 2001	15 August 2007
25	Amoxicillin and Clavulanate Potassium Tablets**	Yes	Yes	Tablet	0.475g x 6	22 November 2001	15 August 2007
		Yes	Yes	Tablet	0.475 x 12		
26	Amoxicillin and Clavulanate Potassium for Suspension**	Yes	Yes	Dry suspension	1.5g x 8	22 November 2001	15 August 2007
27	Cefoperazone Sodium for Injection**	Yes	Yes	Injection	2.0g x 10	30 December 2001	15 August 2007
28	Cefetamet Pivoxil Hydrochloride Tablet	No	No	Tablet	0.25g x 6	20 February 2002	19 February 2007 *(Note 3)*
29	Cefotaxime Sodium for Injection*	Yes	Yes	Injection	2.0g x 10	18 January 2002	17 January 2007 *(Note 3)*
30	Ceftriaxone Sodium for Injection**	Yes	Yes	Injection	2.0g x 10	18 January 2002	17 January 2007 *(Note 3)*
31	Levofloxacin Hydrochloride Eye Drops**	Yes	Yes	Eyedrop	5ml : 15mg	7 August 2002	6 August 2007
32	Ligustrazine Hydrochloride and Sodium Chloride Injection	No	No	Injection	40mg : Sodium chloride 100ml : Ligustrazine Hydrochloride	7 August 2001	28 October 2007
33	Ceftazidime for Injection**	Yes	Yes	Injection	1.0g x 10	30 January 2003	29 January 2008
34	Sultamicillin Tosilate Tablets	No	No	Tablet	0.25g x 6	15 August 2003	14 August 2008
35	Levofloxacin Hydrochloride Ointment	Yes	No	Soft cream	0.30%	21 January 2004	20 January 2009
36	Imiquimod Cream	No	No	Soft cream	2g	2 March 2004	1 March 2009
37	Sodium Hyaluronate Eye Drops	No	No	Eyedrop	5ml : 5mg	17 March 2004	16 March 2009
38	Betamethasone Valerate and Neomycin Sulfate Ointment	No	No	Cream	15g	12 April 2004	11 April 2009
39	Cefoperazone Sodium and Sulbactam Sodium for Injection	Yes	Yes	Injection	2.0g x 10	30 April 2004	29 April 2009
40	Nateglinide Tablets**	Yes	Yes	Tablet	30mg x 24	17 November 2004	16 November 2009
		Yes	Yes	Tablet	30mg x 48		
41	Amoxicillin sodium for Injection	Yes	No	Injection	0.5g x 10	22 August 2001	30 March 2010
42	Tazobactam Sodium and Piperacillin Sodium for Injection	Yes	Yes	Injection	2.25g x 10	14 July 1999	30 March 2010
43	Tazobactam Sodium and Piperacillin Sodium for Injection	Yes	Yes	Injection	4.5g x 10	14 July 1999	30 March 2010
44	Diclofenac Sodium Eye Drops**	Yes	Yes	Eyedrop	5ml : 5mg	12 April 2005	11 April 2010
45	Amoxicillin Sodium and Clavulanate Potassium for Injection**	Yes	Yes	Injection	1.2g x 10	1 September 1998	13 November 2010
46	Ampicillin Sodium and Sulbactam Sodium for Injection**	Yes	Yes	Injection	1.5g x 10	1 September 1998	10 November 2010
47	Amoxicillin Sodium and Clavulanate Potassium for Injection**	Yes	Yes	Injection	0.6g x 10	21 August 2000	13 November 2010
48	Cefpirome Sulfate for Injection (Fourth Generation)	No	No	Injection	0.5g x 10	23 December 2005	22 December 2010
49	Cefpirome Sulfate for Injection (Fourth Generation)	No	No	Injection	1.0g x 10	23 December 2005	22 December 2010
50	Cefuroxime Sodium for Injection (Second Generation)	Yes	Yes	Injection	0.75g x 10	26 April 2006	25 April 2011
51	Cefuroxime Sodium for Injection (Second Generation)	Yes	Yes	Injection	1.5g x 10	26 April 2006	25 April 2011
52	Ampicillin Capsules	Yes	No	Capsule	0.5g x 24	10 May 2006	9 May 2011

Notes:

1. The Insurance Catalogue is divided into two parts, Part A (which includes products prescribed by the PRC Government and which cannot be amended by local level authorities) and Part B (which includes products prescribed by the PRC Government but which can be modified by provincial level authorities). "*" and "**" denote products which fall under Part A and Part B of the Insurance Catalogue, respectively.

2. "#" denotes products which are OTC medicine. The rest of the products listed in the table above are prescription medicine.

3. The Drug Registration Approvals for these products have expired as at the Latest Practicable Date. The Group has yet to obtain new Drug Registration Approvals for these products because the re-registration procedures in the PRC are currently under review, and all applications for Drug Registration Approval are suspended pending such review. The Directors have made enquiries with the SFDA and have been advised that Drug Registration Approvals for such products will, pending the review of re-registration procedures, remain effective notwithstanding their expiry.

The table below shows, in relation to the 71 bulk medicine and finished products produced by the Group in the PRC as at 31 December 2006, the percentage of the Group's total turnover accounted for by such products in the three years ended 31 December 2004, 2005 and 2006 respectively when grouped by reference to the year in which their Drug Registration Approvals will expire:

Number of bulk medicine and finished products in production as at 31 December 2006	Year in which Drug Registration Approval will expire	Percentage of the Group's total turnover for the year ended 31 December 2004	Percentage of the Group's total turnover for the year ended 31 December 2005	Percentage of the Group's total turnover for the year ended 31 December 2006
41	2007	65.9%	65.7%	65.7%
4	2008	2.2%	1.6%	1.4%
6	2009	0.2%	0.2%	0.3%
20	2010 and beyond	28.2%	26.9%	22.0%
Total: 71				

The Group will apply for renewal of the Drug Registration Approvals for its products as and when they expire. The Group has not, in the past, encountered any difficulty in renewing the Drug Registration Approval for its products. As the Group's products currently in production have been sold in the PRC for a considerable period of time, they do not foresee that there will be any major obstacles to such renewal process, which is essentially a procedural matter. The SFDA has recently announced that it may require all pharmaceutical products in the PRC to re-apply for Drug Registration Approval. If the Group had to comply with any such requirement, the Directors do not foresee that it would have any material difficulty in re-applying for and obtaining Drug Registration Approval for its products unless there are material changes in the SFDA's registration standards. The PRC legal advisers to the Company have confirmed that all approvals, licences and permits currently held by the Group have been obtained in accordance with the Law on the Administration of Pharmaceutical Products of the PRC (《中華人民共和國藥品管理法》) and its ancillary regulations, the Administrative Measures on the Registration of Pharmaceuticals Products (2005) (《藥品註冊管理辦法(2005)》). If the SFDA were to apply the same laws and regulations in the re-registration process, the Directors do not anticipate that there would be any material legal difficulty for the Group to re-register its products. If the SFDA were to announce new laws and regulations for re-registration, then provided that the Group is in compliance with the requirements with those laws and regulations, the Directors also do not anticipate that there would be any material legal difficulty for the Group to re-register its products.

As at 31 December 2006, the Group was engaged in the production of four finished products at its production plant in Hong Kong. Three of those products were also in production at the Group's production plant in the PRC as at that date.

The percentage of the Group's turnover derived from sales of intermediate products and bulk medicine used internally for downstream production and from sales to external customers in each of the three years ended 31 December 2004, 2005 and 2006, respectively are as follows:

	For the year ended 31 December 2004		For the year ended 31 December 2005		For the year ended 31 December 2006	
	Internal use	External sales	Internal use	External sales	Internal use	External sales
Intermediate products						
6-APA	–	–	84.7%	15.3%	81.9%	18.1%
7-ACA	–	–	–	–	96.4%	3.6%
T-octylammonium clavulanate	–	–	–	–	–	–

	For the year ended 31 December 2004		For the year ended 31 December 2005		For the year ended 31 December 2006	
	Internal use	External sales	Internal use	External sales	Internal use	External sales
Bulk medicine						
Semi-synthetic penicillin type	14.7%	85.3%	13.1%	87.0%	9.1%	90.9%
Cephalosporins type	7.3%	92.7%	32.4%	67.6%	30.1%	69.9%
β-lactamase inhibitor type	–	–	–	–	24.4%	75.6%

Approvals, licences and certificates required to engage in pharmaceutical production

The Group has obtained the requisite permits, approvals and certificates to enable it to engage in the production of pharmaceutical products in accordance with PRC and Hong Kong legal and regulatory requirements, including Drug Manufacturing Certificates, GMP certificates and Drug Operation Certificates in the PRC and Licence for Manufacturer and Certificate for Manufacturer in Hong Kong. All such certificates and licences held by the Group were valid as at the Latest Practicable Date and the Group will, when necessary, apply for the renewal of such certificates and licences as they approach their expiry dates. None of the above certificates or licences held by the Group have ever been revoked or suspended by the relevant issuing authorities. Under PRC law, the Group is not required to obtain any approval, licence or certificate to engage in the sale of its finished products to pharmaceutical distributors in the PRC.

The following table sets out the expiry dates of each of the Drug Manufacturing Certificates, Drug Operation Certificates and GMP Certificates held by the Group in the PRC and the Licence for Manufacturer and Certificate for Manufacturer held by the Group in Hong Kong as at the Latest Practicable Date:

Certificate/Licence	Entity within the Group to whom certificate/ licence has been issued	Date of expiry of certificate/licence
Drug Manufacturing Certificate	United Laboratories Zhuhai	31 December 2010
Drug Manufacturing Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	31 December 2010
Drug Manufacturing Certificate	Zhuhai Lebang	31 December 2010
Drug Manufacturing Certificate	Kingly Capsule	31 December 2010
Drug Operation Certificate *(Note 1)*	Zhuhai Wanbang	7 December 2009
GMP Certificate	United Laboratories Zhuhai	24 October 2009
GMP Certificate	United Laboratories Zhuhai	27 November 2010
GMP Certificate	United Laboratories Zhuhai	19 January 2011
GMP Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	6 February 2012
GMP Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	1 December 2009
GMP Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	22 June 2008
GMP Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	26 February 2009
GMP Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	18 October 2010
GMP Certificate	United Laboratories Zhuhai (Zhongshan Branch Company)	29 June 2010
GMP Certificate	Zhuhai Lebang	13 December 2010
Licence for Manufacturer	United Laboratories Hong Kong	10 June 2007 *(Note 2)*
Certificate for Manufacturer	United Laboratories Hong Kong	10 June 2007 *(Note 3)*

Notes:

1. Under PRC law, pharmaceutical manufacturing enterprises and their salespersons are not required to obtain a Drug Operation Certificate when engaged in the sale of pharmaceutical products produced by such pharmaceutical enterprises. Hence, those members of the Group who are engaged in the sale of products that they produce do not hold such certificate. Zhuhai Wanbang engages in the sale of products produced by other members of the Group and is, therefore, required to obtain a Drug Operation Certificate.

2. The Group is currently undergoing the renewal process for this licence.

3. The Group is currently undergoing the renewal process for this certificate.

Approvals, licences and certificates required for the production of individual pharmaceutical products

The Group has obtained Drug Registration Approvals from the SFDA in respect of each of the products in production in the PRC and Certificates of Drug/Product Registration from the Pharmacy and Poisons Board in Hong Kong in respect of each of the products in production in Hong Kong as at the Latest Practicable Date.

While the SFDA is responsible for Drug Registration Approvals, other regulatory approvals that may be required for individual pharmaceutical products are generally the responsibility of provincial level food or drug administration authorities. In the past, the Group has not encountered any material difficulty in obtaining the regulatory approvals required for the production of any of its products. The Directors believe that the Group's staff is sufficiently experienced in dealing with the renewal of the approvals, licences or certificates required for its products. Members of the Group's staff have been assigned specific responsibility for dealing with the renewal of such approvals, licences and certificates.

The Group has not received any material complaints from any regulatory authority in relation to any of its products or been ordered by any regulatory authority to cease or suspend production or sales of any of its products.

In relation to antibiotics type bulk medicine, non-antibiotics type bulk medicine, antibiotics finished products and non-antibiotics finished products for which Drug Registration Approvals have been obtained from the SFDA, the table below shows the number of those products which were in production and those which had yet to be put into production in the PRC as at 31 December 2006:

Type of product	Number of products with Drug Registration Approval which were in production in the PRC as at 31 December 2006	Number of products with Drug Registration Approval which had yet to be put into production in the PRC as at 31 December 2006
Antibiotics type bulk medicine	19	8
Non-antibiotics type bulk medicine	–	3
Antibiotics finished products	39	23
Non-antibiotics finished products	13	14
Total:	71	48

As indicated in the table above, there are various products for which the Group has obtained Drug Registration Approvals but which the Group had not yet put into production in the PRC as at the Latest Practicable Date. For certain of those products, the Directors are of the view that it is not in the Group's interests to start engaging in their production at this stage as they are subject to price controls imposed by the PRC Government. Of the remainder of those products, the Group is preparing to tender for supply to hospitals in the PRC and will commence production of those products if the Group succeeds with its tenders.

The Group has the right to engage in the exclusive production of each of the products in respect of which a Certificate of New Medicine has been obtained during the applicable protection, transition or monitoring period for such product. Further details about protection, transition and monitoring periods for products in respect of which Certificates of New Medicine have been obtained are set out in the sub-paragraph headed "Registration of new medicine" under the paragraph headed "Regulatory approval and registration required to be obtained for pharmaceutical products" in the section headed "Regulatory Framework" of this prospectus. To the knowledge of the Directors, the Group has not received any material complaints from customers or end-users in relation to any of its products during any applicable protection, transition or monitoring period nor has the Group been required to report any material problems concerning the curative effect, safety or adverse drug reaction in relation to any of those products during any applicable protection, transition or monitoring period.

The table below shows, in relation to the products produced by the Group in the PRC as at 31 December 2006 and in respect of which Certificates of New Medicine have been obtained, the percentage of the Group's total turnover accounted for by such products (when grouped by reference to the year in which their protection or transition periods are due to expire), in each of the three years ended 31 December 2004, 2005 and 2006:

	Percentage of the Group's total turnover for the year ended 31 December 2004	**Percentage of the Group's total turnover for the year ended 31 December 2005**	**Percentage of the Group's total turnover for the year ended 31 December 2006**
Protection or monitoring period expiring in 2007 (10 products)	3.0%	2.5%	2.2%
Protection period expiring in 2008 (1 product)	0.3%	0.3%	0.3%
Total:	3.3%	2.8%	2.5%

The following is a list of the products in respect of which Certificates of New Medicine have been obtained (and whose protection, transition or monitoring periods have yet to expire) and were produced by the Group in the PRC as at the Latest Practicable Date:

Type of product	Product	Expiry date of protection or transition or monitoring period
Antibiotics bulk medicine	1. Sulbactam pivoxyl	17 September 2007
Antibiotics finished products	2. Amoxicillin and clavulanate potassium for suspension (7:1)	21 November 2007
	3. Levofloxacin hydrochloride eye drop	5 March 2008
	4. Amoxicillin sulbactam pivoxyl tablet	17 September 2007
	5. Amoxicillin and clavulanate potassium tablet (7:1)	21 November 2007
Non-antibiotics finished products	6. Potassium guaiacolsulfonate and codeine phosphate oral solution	28 October 2007

The following is a list of the products in respect of which Certificates of New Medicine have been obtained (and whose protection, transition or monitoring periods have yet to expire) but have yet to be put into production by the Group in the PRC as at the Latest Practicable Date:

Type of product	Product *(Note)*	Expiry date of protection or transition or monitoring period
Non-antibiotics bulk medicine	1. Triprolidine hydrochloride	17 September 2007
Non-antibiotics finished products	2. Triprolidine hydrochloride capsule	17 September 2007
	3. Triprolidine hydrochloride tablet	17 September 2007

Note: The Group may or may not commence commercial production of any of these products. The Group's decision as to whether to commence commercial production of any of these products will depend on a number of considerations including market demand and profitability.

Awards

A selection of awards received by the Group from 2003 to 2006 in recognition of its achievement in product quality, technological development and success in brand development from various governmental departments and industry organisations in the PRC in relation to its products is set out below:

Product	Awarded by *(Note)*	Award *(Note)*	Year awarded	Status as at the Latest Practicable Date
• Raw materials of sulbactam pivoxil and amoxicillin sulbactam pivoxil tablet	Ministry of Science and Technology of the PRC (中國科學技術部)	National Torch Programme (國家級火炬計劃項目)	2003	Commenced production
• Ceftiaxone sodium	Ministry of Science and Technology of the PRC (中國科學技術部)	National Torch Programme (國家級火炬計劃項目)	2004	Commenced production
• Raw materials of ceftazidime and ceftazidime for injection	Bureau of Science and Technology of Zhuhai* (珠海市科學技術局)	Science and Technology Programme (科技計劃項目)	2003	Commenced production
• Anti-prostate cancer synthetic vaccine	Bureau of Science and Technology of Zhuhai* (珠海市科學技術局)	Science and Technology Programme (科技計劃項目)	2003	Applied for clinical trial approval
• Adefovir dipivoxil	Bureau of Science and Technology of Zhuhai* (珠海市科學技術局)	Science and Technology Programme (科技計劃項目)	2004	Applied for production approval
• Alzheimer's disease synthesised vaccine	Bureau of Science and Technology of Zhuhai* (珠海市科學技術局)	Science and Technology Programme (科技計劃項目)	2005	Applied for clinical trial approval
• Cefuroxime axetil and its tablet	The People's Government of Zhuhai* (珠海市人民政府)	Scientific Technology Award (First Class) (科學技術獎勵(一等))	2005	Commenced production
• Adefovir dipivoxil	Bureau of Economics and Trade of Zhuhai* (珠海市經濟貿易局)	Innovative Technology Project (技術創新項目)	2005	Applied for production approval
• Potassium guaiacolsulfonate and codeine phosphate oral	The People's Government of Zhongshan* (中山市人民政府)	Scientific Technology Improvement Award (Second Class) (科學技術進步獎(二等))	2004	Commenced production
• Anti-prostate cancer synthetic vaccine	Bureau of Science and Technology of Zhongshan* (中山市科學技術局)	Science and Technology Programme (科技計劃項目)	2003	Applied for clinical trial approval

Product	Awarded by *(Note)*	Award *(Note)*	Year awarded	Status as at the Latest Practicable Date
• Recombinant human insulin	Bureau of Science and Technology of Zhongshan* (中山市科學技術局)	Science and Technology Programme (科技計劃項目)	2003	Completed clinical trial and applying for production approval
• Levofloxacin hydrochloride eye drops	The People's Government of Zhongshan* (中山市人民政府)	Technological Advancement Award (科技進步獎)	2005	Commenced production
• Imiquimod and imiquimod cream	Bureau of Science and Technology of Zhongshan* (中山市科學技術局)	Science and Technology Programme (科技計劃項目)	2005	Commenced production (for imiquimod cream only)
• Potassium guaiacolsulfonate and codeine phosphate oral, amoxicillin capsule, compound codeine phosphate oral, ampicillin capsule	Chinese Medicine Society of Guangdong Province*, Famous Pharmaceutical Brands Assessment Committee of Guangdong Province* (廣東省醫藥行業協會, 廣東省醫藥行業名牌產品審定委員會)	Famous brand product (名牌產品)	2003	Commenced production
• United Laboratories Amoxicillin branded amoxicillin granules	Guangdong Provincial Quality Inspection Bureau* (廣東省質量技術監督局)	Provincial well-known brand products (省名牌產品)	2004	Commenced production
• "United" trademark	Guangdong Provincial Famous Trademark Determination Committee (廣東省著名商標認定委員會)	Provincial well-known trademark (省著名商標)	2006	Not applicable
• "United Laboratories Tazocine" trademark	Guangdong Provincial Famous Trademark Determination Committee (廣東省著名商標認定委員會)	Provincial well-known trademark (省著名商標)	2006	Commenced production
• Amoxicillin and Clavulanate Potassium 7:1 Tablets	The People's Government of Zhongshan* (中山市人民政府)	Scientific Technology Award (科學技術獎)	2006	Commenced production
• Rimantadine Hydrochloride Granules	Bureau of Science and Technology of Zhongshan (中山市科學技術局)	Science and Technology Programme (科技計劃項目)	2006	In the process of application for the right to manufacture

Note: "" English translation of names of awards and the body by whom such awards were presented are for identification purpose only.*

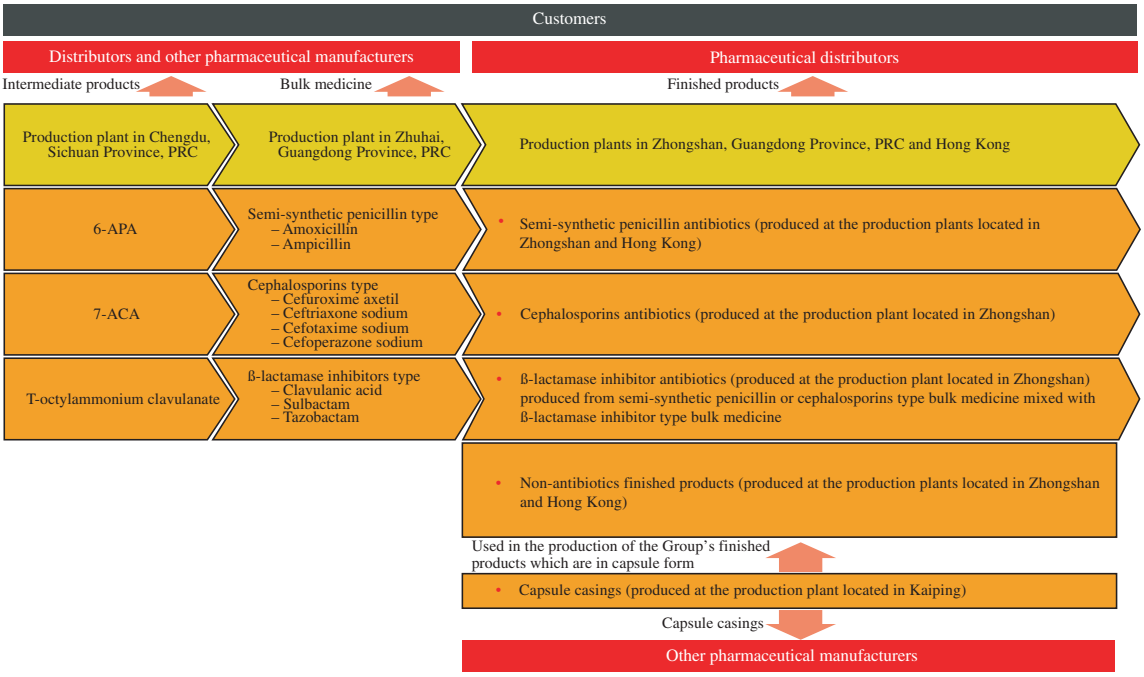
In 2003, United Laboratories Zhuhai was recognised as an Enterprise of Advanced New Technology under the National Torch Programme (國家火炬計劃重點高新技術企業) by Science and Technology Department (科學技術部) of the PRC.

PRODUCTION

Production plants

The Group's production plants are located in Zhuhai, Zhongshan and Kaiping in Guangdong Province and Chengdu in Sichuan Province in the PRC as well as Hong Kong. Those plants occupy a total site area of approximately 717,160.75 sq.m..

The following diagram shows the different production focus of each of the Group's five production plants under the Group's vertically integrated production operation:



Further details relating to the five production plants of the Group located in the PRC and Hong Kong as at the Latest Practicable Date are set out in the table below:

Location of the Group's production plants (Approximate total site area)	**Major types of products produced**	**GMP or similar certification**
Chengdu, Sichuan Province, PRC (398,784.53 sq.m.)	Intermediate products	Not required
Zhuhai, Guangdong Province, PRC (239,487.3 sq.m.)	Bulk medicine	Obtained for all production workshops
Zhongshan, Guangdong Province, PRC (59,845.02 sq.m.)	Antibiotics and non-antibiotics finished products	Obtained for all production workshops
Kaiping, Guangdong Province, PRC (8,312 sq.m.)	Capsule casings	Not required
Hong Kong (10,731.9 sq.m.)	Antibiotics and non-antibiotics finished products	Certificate for Manufacturer issued by the Pharmacy and Poisons Board in Hong Kong relating to the production workshops in operation as at the Latest Practicable Date obtained

The Group has three production lines at its Chengdu plant for the production of 6-APA, 7-ACA and T-octylammonium clavulanate. These production lines are equipped with advanced equipment.

The Group's production operations in Chengdu consume large amounts of electricity. The Group has installed two turbine generators with an aggregate generating capacity of 15,000 kw at its production plant in Chengdu. These power generation facilities provide a cost effective source of power supply for the Chengdu production plant, although the Group also uses power supplied through the national grid when its own supply is insufficient.

The Group's production operations in Chengdu also consume a significant quantity of water. One of the Group's key considerations in choosing the location of its production plant in Chengdu is the lower cost of water there when compared to, for instance, Zhuhai. The Chengdu plant has access to an abundant supply of water, which the Group purchases from the local government.

The Group produces all its intermediate products at its production plant in Chengdu, which are then delivered by vehicle to its production plant in Zhuhai for further processing into bulk medicine. The majority of the bulk medicine produced in Zhuhai for the Group's downstream usage is then delivered by vehicle to the Group's production plant in Zhongshan, with a small proportion delivered to its production plant in Hong Kong, where the bulk medicine is used in the production of antibiotics finished products. The Directors believe the different location and production focus of each of the Group's production plants enable the Group to take advantage of local benefits, such

as comparatively low water cost in Chengdu and preferential tax rates enjoyed by certain members of the Group pursuant to the Group's designation as an "Advanced New Technology Enterprise" (先進技術企業), which outweighs the additional transportation costs for the delivery of intermediate products and bulk medicine to its different production plants.

The Group also engages in sub-contracting production where the Group uses 7-ACA supplied by its customers to produce bulk medicine for sale to such customers.

GMP certification

Since mid-2004, it has become a mandatory requirement in the PRC for all enterprises engaged in the manufacture of pharmaceutical finished products and bulk medicine in the PRC to ensure that their production plants comply with GMP standards and to obtain GMP certification from the SFDA. In Hong Kong, a pharmaceutical manufacturer is required to apply for a Certificate for Manufacturer which is issued on the basis of compliance with good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation. Further details on the GMP certification requirements are set out in the paragraph headed "GMP certification" in the section headed "Regulatory Framework" of this prospectus.

The Group has obtained GMP certification for all its production workshops in Zhongshan and Zhuhai in accordance with the regulatory requirements in the PRC. Those requirements do not apply to the Group's production plants in Chengdu and Kaiping which are engaged in the production of intermediate products and capsule casings, respectively. The Group has obtained a Certificate for Manufacturer from the Pharmacy and Poisons Board in Hong Kong for its production plant in Hong Kong which has been issued on the basis of compliance with good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation.

The Group was able to obtain GMP certification for all its production workshops then in operation at its production plant in Zhongshan on one application in 1997. The Group's production plants in Zhongshan and Zhuhai are subject to random inspection by the SFDA and other relevant governmental departments after GMP certification. If any of the plants are found not to be in compliance with GMP standards on inspection, those plants' GMP certifications may be revoked.

In Hong Kong, both the Licence for Manufacturer and Certificate for Manufacturer are valid for a period of one year and are subject to renewal by the Pharmacy and Poisons Board. Based on the Group's previous experience, the Pharmacy and Poisons Board will confirm with the Group its intention to renew its Licence for Manufacturer and Certificate for Manufacturer in Hong Kong before their expiry. The Pharmacy and Poisons Board will then conduct an inspection of the Group's production plant in Hong Kong. If the Pharmacy and Poisons Board is satisfied with the condition of the Group's production facilities, and subject to the Group paying the prescribed annual fee, a new Licence for Manufacturer or Certificate for Manufacturer will be granted by the Pharmacy and Poisons Board for an additional one-year period.

Production capacity and utilisation rates

The following table summarises the annual designed production capacity and utilisation rate of the Group's production facilities at its five production plants located in the PRC and Hong Kong with respect to selective major products in production during the Track Record Period. In the table, utilisation rates of the Group's production plants in Chengdu and Zhuhai (which engage in the production of intermediate products and bulk medicine, respectively) have been calculated based on 24-hour daily operation, while those of its production plants in Zhongshan and Hong Kong (which engage in the production of finished products) have been calculated based on daily operation ranging from six to 12.5 hours. Further assumptions relating to the calculation of the production capacities are contained in note 1 to this table:

Location of the Group's production plants	Major products	Year ended 31 December 2004 Annual designed production capacity *(Note 1)*	Utilisation rate *(%)*	Year ended 31 December 2005 Annual designed production capacity *(Note 1)*	Utilisation rate *(%)*	Year ended 31 December 2006 Annual designed production capacity *(Note 1)*	Utilisation rate *(%)*
Chengdu, Sichuan Province, PRC							
	Intermediate products						
	6-APA *(Note 2)*	3,467 tonnes	8	3,467 tonnes	58	3,467 tonnes	92
	7-ACA	–	–	552.5 tonnes	–	552.5 tonnes	26
	T-octylammonium clavulanate	–	–	75.6 tonnes	7	75.6 tonnes	19
Zhuhai, Guangdong Province, PRC							
	Bulk medicine						
	Semi-synthetic penicillin	2,200 tonnes	88	2,750 tonnes	97	3,769 tonnes	96
	Cephalosporins	608 tonnes	62	688 tonnes	81	662 tonnes	84
Zhongshan, Guangdong Province, PRC							
	Antibiotics finished products						
	Amoxicillin/Ampicillin capsule	400 million capsules	70	400 million capsules	75	400 million capsules	91
	Amoxicillin granules	29 million bags[(i)]	79	29 million bags[(i)]	69	29 million bags[(i)]	90
				[(i)] *of 125mg per bag*			
	β-lactamase inhibitor antibiotics	8,046,000 bottles[(ii)]	71	7,768,800 bottles[(ii)]	72	10,486,700 bottles[(ii)]	74
				[(ii)] *of either 12ml or 25ml per bottle*			

Location of the Group's production plants	Major products	Year ended 31 December 2004 Annual designed production capacity *(Note 1)*	Utilisation rate *(%)*	Year ended 31 December 2005 Annual designed production capacity *(Note 1)*	Utilisation rate *(%)*	Year ended 31 December 2006 Annual designed production capacity *(Note 1)*	Utilisation rate *(%)*
	Non-antibiotics finished products						
	Cough syrup	9.2 million bottles[iii]	56	9.2 million bottles[iii]	83	9.2 million bottles[iii]	89
				[iii] *of 120ml per bottle*			
Hong Kong							
	Antibiotics finished products						
	Amoxicillin/Ampicillin capsules	600 million capsules	75	570 million capsules	100	600 million capsules	89
	Amoxicillin granules	46 million bags[iv]	67	43 million bags[iv]	63	46 million bags[iv]	65
				[iv] *of 125mg per bag*			
Kaiping, Guangdong Province, PRC							
	Capsule casings	2.4 billion capsules	92	2.4 billion capsules	94	2.4 billion capsules	95

Notes:

1. Annual designed production capacity has been calculated on the basis of the following principal assumptions and in accordance with the Group's internal production records:

   (a) production lines for intermediate products operate on a 24-hour basis daily;

   (b) production lines for bulk medicine operate on a 24-hour basis daily except for production staff holidays or when production is suspended for routine inspection and maintenance;

   (c) production lines for finished products in the PRC operate for six to seven hours daily except for production staff holidays or when production is suspended for routine inspection and maintenance;

   (d) production lines for amoxicillin capsules and ampicillin capsules in Hong Kong operate for 12.5 hours daily except for production staff holidays;

   (e) production lines for amoxicillin granules in Hong Kong operate for 6.5 hours daily except for production staff holidays;

   (f) production lines for capsule casings operate on a 24-hour basis daily except for statutory holidays in the PRC or when production is suspended for routine inspection and maintenance; and

   (g) all raw materials are available when required.

2. The production capacity and utilisation rate for 6-APA refers to 6-APA produced by using what the Group refers to as the direct extraction method at the Chengdu production plant. Production of 6-APA from penicillin G potassium salt at the Zhuhai production plant previously undertaken by the Group has not been taken into account.

3. The symbol "–" denotes that the product has not yet commenced production during the period.

Production process

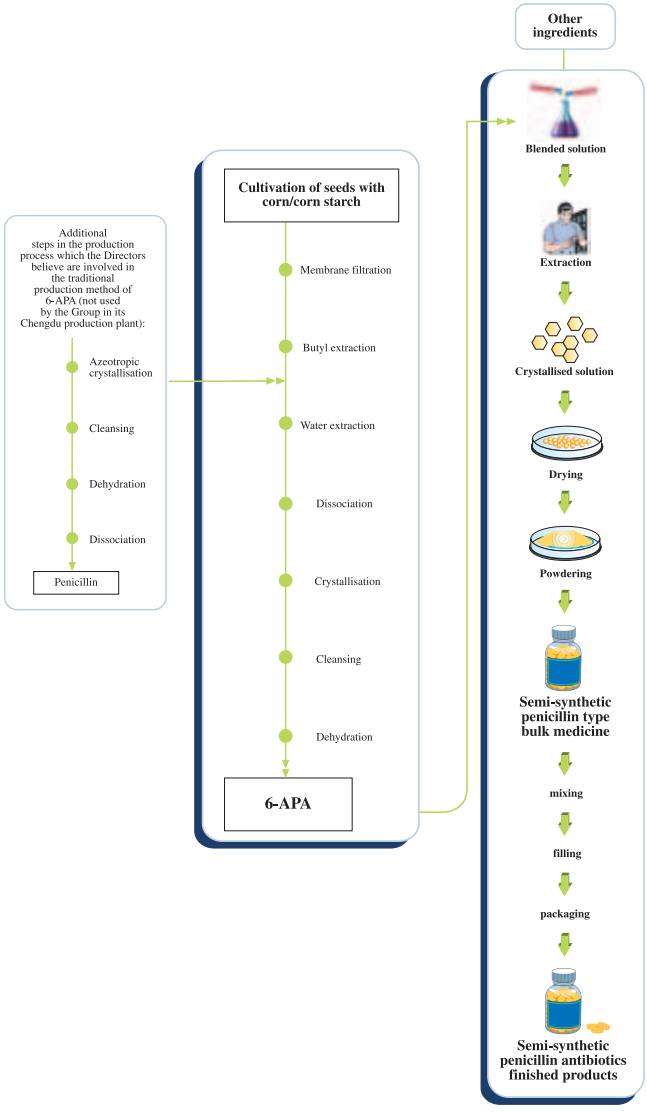
The Group's vertically integrated production process for antibiotics finished products involves three key stages.

The first stage involves the production of intermediate products which is a core chemical compound produced from natural raw materials (such as seeds) through extraction and crystallisation processes.

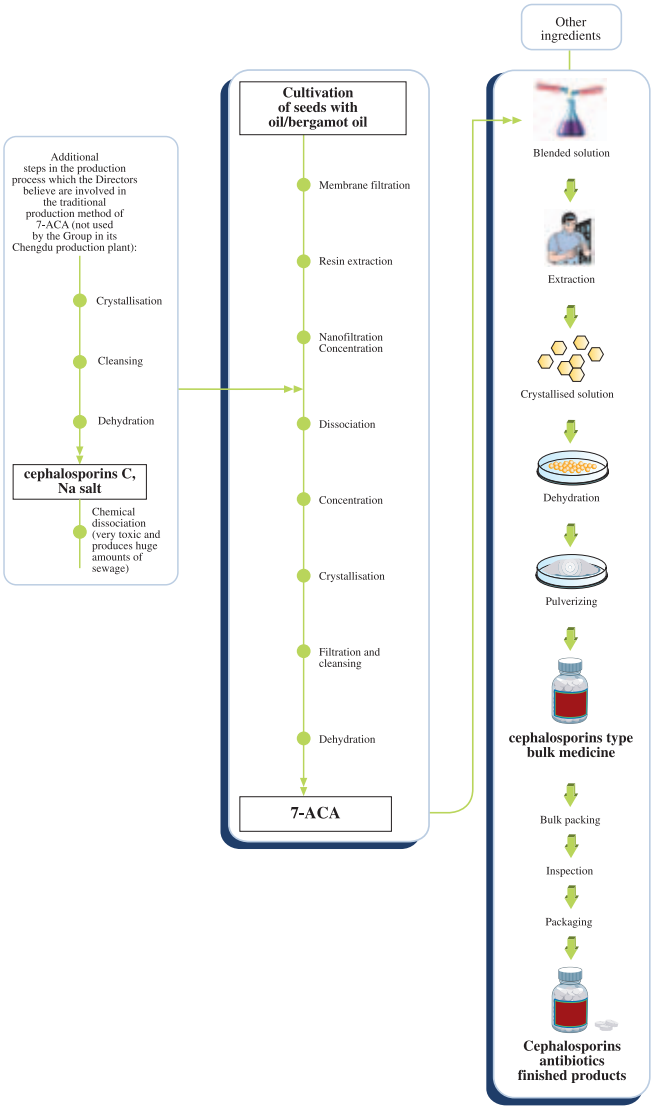
The second stage involves the processing of the three types of intermediate products, namely 6-APA, 7-ACA and T-octylammonium clavulanate, into semi-synthetic penicillin, cephalosporins and β-lactamase inhibitor types bulk medicine, respectively.

The third stage involves the use of these three types of bulk medicine to produce semi-synthetic penicillin, cephalosporins and β-lactamase inhibitor antibiotics finished products. Semi-synthetic penicillin and cephalosporins bulk medicine are used to produce semi-synthetic penicillin and cephalosporins antibiotics finished products respectively; while semi-synthetic penicillin or cephalosporins type bulk medicine is mixed with β-lactamase inhibitor type bulk medicine to produce β-lactamase inhibitor antibiotics finished products.

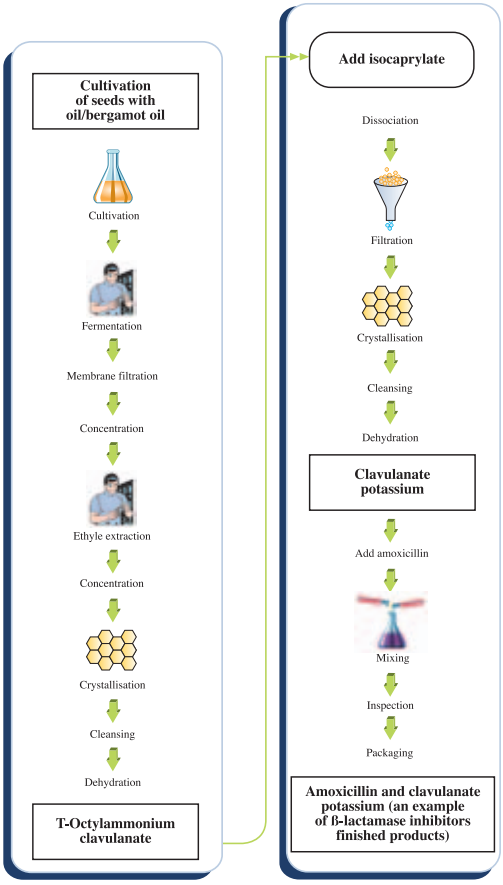
The following diagram illustrates the main stages of the Group's production processes for 6-APA (using the method referred to by the Group as the direct extraction method), semi-synthetic penicillin type bulk medicine and semi-synthetic penicillin antibiotics finished products:



The following diagram illustrates the main stages of the Group's production processes for 7-ACA, cephalosporins type bulk medicine and cephalosporins antibiotics finished products:



The following diagram illustrates the main stages of the Group's production processes for T-octylammonium clavulanate, clavulanate potassium (being a β-lactamase type bulk medicine) and amoxicillin and clavulanate potassium (being an example of β-lactamase inhibitor type antibiotics finished products):



QUALITY CONTROL

The Directors believe the Group has built up strong market recognition for its brand name in the PRC primarily on the basis of the quality of its products and customer service. The Group has received various awards in recognition of the quality of its products, further details of which are set out in the paragraph headed "Awards" in this "Business" section.

As at 31 December 2006, the Group had a total of 196 employees in charge of quality control, of whom 77 had professional qualifications. The Group has established a quality control team at each of its five production plants located in the PRC and Hong Kong. Each quality control team is primarily responsible for setting and supervising the implementation of quality control standards and procedures at the production plant at which it is stationed. The GMP certification requirements in the PRC prescribe certain standards to be met in relation to raw materials, hygiene, production management, as well as quality control procedures. The Group's quality control staff is also responsible for ensuring that these requirements are met.

The Group requires all employees engaged in production operations to attend training in areas such as GMP standards, quality control standards and operational procedures before reporting to duty. Those employees are also required to attend training sessions from time to time.

The quality control measures adopted by the Group include sample inspection of each batch of raw materials upon delivery; carrying out quality checks during the production process and before delivery to third party customers; and regular cleaning and sterilisation of production equipment and premises. The Group has also prepared operation manuals which set out the operational procedures and requirements for different stages of its production process. These operation manuals are reviewed and updated from time to time. Where any revision is made to any of the operation manuals, the production staff whose duties are affected by any such revisions will be required to attend further training thereon.

In accordance with PRC regulatory requirements, all finished products are sold by the Group with detailed instructions on their chemical contents, curative effects, dosages and methods of use. The Group has, among its sales staff, nine licensed pharmacists in the PRC who provide training to the Group's customers from time to time (and in some instances, jointly with such customers to medical practitioners and hospital staff) on the proper use of the Group's products, particularly before the introduction of any new product. The Group's sales staff also collects feedback from customers on the quality and curative effect of the Group's products from time to time.

The Group had not experienced any material sales return arising from any defective products nor had it been subject to any product liability claim over the Track Record Period.

INDUSTRIAL SAFETY

The Directors attribute a high degree of importance to industrial safety in the Group's production operations, particularly as a significant amount of chemical substances are used in the Group's production process. The Group has adopted detailed safety guidelines based on applicable legal and regulatory requirements for each of its five production plants, to which all employees are required to strictly adhere. The PRC legal advisers to the Company have confirmed that the Group is in compliance with all relevant laws and regulations relating to industrial safety in the PRC. The Directors have confirmed that the Group's production plant in Hong Kong is in compliance with all relevant laws and regulations relating to industrial safety in Hong Kong. The Directors believe that the industrial safety measures currently adopted by the Group are comparable to those commonly adopted by manufacturers engaged in similar production operations in the PRC and Hong Kong.

An explosion happened in the extraction workshop engaged in the production of T-octylammonium clavulanate at the Group's production plant in Chengdu in January 2006 which caused the death of two employees. No other casualties were caused by this incident. Based on its investigation, the Group determined that this incident was caused by the failure of the two deceased employees to properly carry out procedures relating to the release of pressure from production tanks which were in operation. The Group recovered approximately RMB777,000 (equivalent to approximately HK$788,688) from its insurer in respect of property loss caused by the incident.

Compensation paid to the estate of the two deceased employees included cash payments by the Group as well as payments out of the social insurance policy and personal life accident insurance policy taken out by the Group for its employees. The estate of the two deceased employees each received from the Group approximately RMB250,000 (equivalent to approximately HK$253,761) in compensation. Of the compensation paid to the estate of one of the deceased employees, the Group received reimbursement of a total of approximately RMB140,000 (equivalent to approximately HK$142,106) from the social insurance and personal life accident insurance policies. Of the compensation paid to the estate of the other deceased employee, the Group received reimbursement of a total of approximately RMB60,000 (equivalent to approximately HK$60,903) from the personal life accident insurance policy and expects to receive reimbursement from social insurance policy amounting to approximately RMB80,000 (equivalent to approximately HK$81,203). The Directors have confirmed that there are no outstanding claims or proceedings against the Group relating to this incident.

Following this incident, the Group reviewed and tightened the safety measures at its production plants. The steps taken by the Group to improve industrial safety include the recruitment of additional supervising and technical staff with chemical expertise, the installation of fire or explosion detectors in those of its workshops with a higher risk of fire or explosion as well as the provision of training to all production staff to increase their safety awareness and familiarity with safety procedures. The Directors are of the view that the tightened measures are adequate for the purpose of minimising the occurrence of similar incidents which may be caused by employees who do not comply with the Group's safety and operational guidelines.

RESEARCH AND DEVELOPMENT

Research and development capability

The Group considers that its research and development are fundamental to its continued development and future growth. The Group undertakes research and development both on its own and in collaboration with universities in the PRC or other third-party medical research institutions such as the chemical engineering department of Tsinghua University (清華大學) and the Sichuan Industrial Institute of Antibiotic of China National Pharmaceutical Group Corporation (中國醫藥集團總公司四川抗菌素工業研究所) in the PRC. Its research and development activities focus on both improving product quality and production efficiency as well as developing new products.

In each of the three years ended 31 December 2004, 2005 and 2006, the Group's total expenditure on research and development amounted to approximately HK$11.5 million, HK$12.4 million and HK$19.1 million, representing approximately 4.5%, 2.8% and 3.6% of the Group's total expenditure in each of those years, respectively.

The Group has established the United Laboratories Technology Centre (聯邦制藥技術中心) which is primarily responsible for carrying out its research and development activities. The centre has two bases, one at the Group's production plant in Zhuhai and the other in Zhongshan. Its main functions include developing new medicine and applying for drug registration with respect to any new medicine developed by the Group. As at 31 December 2006, the centre had 66 staff, of whom 50 had undergraduate degrees or higher education, including one with a doctorate degree.

The Group's product development activities currently focus on the following aspects:

- development of new products identified by the Group as having strong commercial potential which would allow the Group to further expand its product range; and

- development of bio-pharmaceutical products, including an insulin for the treatment of diabetes and a medicine for the treatment of Alzheimer's disease, in collaboration with its research partners.

As at the Latest Practicable Date, the Group had a total of 26 finished products under development which were (i) pending Drug Registration Approvals or (ii) had obtained approvals for clinical trial or undergoing clinical trial in the PRC.

Apart from the United Laboratories Technology Centre, the Group also has a research department at its production plant in Chengdu which focuses on the improvement of production technology so as to increase production efficiency and lower production costs.

Research and development in collaboration with research partners

Apart from its own research and development, the Group also enters into collaboration arrangements with various medical research institutions both within and outside the PRC. Such collaboration arrangements typically involve the Group and its research partner jointly carrying out research and development work with funding provided by the Group. The Group will retain the sole or non-exclusive right to use the results of such research and development for the production and/or sale of any new medicine for a period of time.

The following table sets out the major research projects which the Group undertook in recent years or is currently undertaking in collaboration with research partners:

	Research partner	Purpose of research project	Date on which the Group entered into agreement with research partner	Total amount of cash investment made or to be made by the Group on the project under the relevant agreement	Amount of cash investment made or to be made by research partner	Ownership of intellectual property rights	Status as at the Latest Practicable Date
1	Sichuan Industrial Institute of Antibiotic of China National Pharmaceutical Group Corporation	Development of compounding technique for a medicine for the treatment of hepatitis B	20 July 2001	RMB15 million (to be paid by instalments)	Nil	Right to apply for and right to assign patent over technical results belongs to the research partner but right to use technical results belong to both parties	Application made for production approval in the PRC

	Research partner	Purpose of research project	Date on which the Group entered into agreement with research partner	Total amount of cash investment made or to be made by the Group on the project under the relevant agreement	Amount of cash investment made or to be made by research partner	Ownership of intellectual property rights	Status as at the Latest Practicable Date
2	Xgen Laboratories	Development of therapeutic vaccines against tumor	18 January 2006	US$200,000 (to be paid by four instalments within two years)	Nil	The Group shall have the ownership of the product in the PRC market (including the patent right and the exclusive right to sell the product); the research partner shall have the ownership of the product so developed outside the PRC (including patent right and right to sell)	Pre-clinical testing stage
3	Chengdu Yatu Biotechnology Co., Ltd.	Development of Orlistat	1 April 2005	RMB3 million (all fees relating to clinical research, to be paid by instalments)	Nil	Right to apply for and right to assign patent relating to over technical results, as well as right to use technical results belong to both parties	Application made for commencement of clinical testing in the PRC

The Group has, since October 2006, been cooperating with the chemical engineering department of Tsinghua University in the PRC on a research and development project.

Products under development

As at the Latest Practicable Date, the Group had a total of 26 finished products under development which were (i) pending Drug Registration Approvals; or (ii) had obtained approvals for clinical trial or undergoing clinical trial in the PRC. The Directors expect that one of those products, when fully developed, may qualify for classification as an innovative drug under PRC regulations and be entitled to apply for a Certificate of New Medicine. Further details on these 26 products are listed below:

(i) Pending Drug Registration Approvals

	Product	Classification	Main indications	Length of monitoring period if Certificate of New Medicine obtained	Expected time for obtaining Drug Registration Approval *(Note 1)*
1	Compound Gentamycin Eye Drops	Aminoglycoside, compound antibiotics	For treatment of eye infection	3 years	2008
2	Pazufloxacin Mesylate Sodium Chloride Injection	Quinolone antibacterial agents	For treatment of infection of respiratory system, urinary system and other organs	3 years	2008
3	Adefovir Dipivoxil Capsules	Nucleotide antivivotic	For treatment of hepatitis B	3 years	Second half 2007 *(Note 2)*
4	Maltose Injection	Nutrition drugs	Nutrition solutions for diabetic patients	3 years	2008
5	Rimantadine Hydrochloride Granules	Antivivotic	Anti-influenza medicine	3 years	2008
6	Candesartan Cilexetil Tablets	Angiotensin II receptor inhibitor, anti-hypertension agents	For treatment of hypertension	4 years	2008
7	Pazufloxacin Mesylate for Injection	Quinolone antibacterial agents	For treatment of external injuries, chronic respiratory system infection, urinary system infection and other infections	3 years	2008
8	Acetaminophen and Dextromethorphan Hydrobromide Oral Solution	Compound anti-flu medicine	For treatment of flu	3 years	2008

	Product	Classification	Main indications	Length of monitoring period if Certificate of New Medicine obtained	Expected time for obtaining Drug Registration Approval *(Note 1)*
9	Cefepime Hydrochloride for Injection	Cephalosporins, antibacterial agents	For treatment of respiratory system infection, urinary system infection and other infections	3 years	2008
10	Pseudoephedrine Hydrochloride and Guaifenesin and Dextromethorphan Hydrobromide Oral Solution	Anti-cold drug, compound	For treatment of cold	Not applicable	2008
11	Pseudoephedrine Hydrochloride and Triprolidine Hydrochloride and Dextromethorphan Hydrobromide Oral Solution	Anti-cold drug, compound	For treatment of cold	Not applicable	2008
12	Isophane Protamine Human Insulin Injection	Bio-product	For treatment of types I & II diabetes	4 years	Second half of 2007 *(Note 2)*
13	Imipenem Cilastatin Sodium for Injection	Carbapenems antibiotics	For treatment of various types of infection	Not applicable	Second half of 2007 *(Note 2)*
14	Meropenem for Injection	Carbapenems antibiotics	For treatment of various types of infection	Not applicable	Second half of 2007 *(Note 2)*

Notes:

1. The expected time for obtaining Drug Registration Approval was estimated by the Directors on the basis that (i) registration can be successfully completed based on the laws and regulations relating to the registration of pharmaceutical products currently in force in the PRC and the Group's previous experience in obtaining Drug Registration Approvals; (ii) the registration procedures which are currently being reviewed by the SFDA will remain substantially the same; and (iii) no material difficulty arises in connection with the application for registration process.

2. The Group currently expects to launch these products after their Drug Registration Approvals have been obtained, however, there can be no assurance as to precisely when these launches will occur. For the other products listed in the table above, the Group will, depending on market conditions, customer demand and pricing, decide on when each of them will be launched after Drug Registration Approvals have been obtained.

(ii) Obtained approval for clinical trial or undergoing clinical trial

	Product	Classification	Main indications	Stage of clinical trial as at the Latest Practicable Date	Length of monitoring period if Certificate of New Medicine obtained	Expected time for obtaining Drug Registration Approval *(Note 1)*
1	Levetiracetam Tablets	Antiepileptic drugs	Antiepileptic	Clinical observation	3 years	2008 *(Note 2)*
2	Memantine Hydrochloride Tablets	NMDA receptor antagonist	Treating senile dementia	Clinical observation	3 years	2008 *(Note 2)*
3	Memantine Hydrochloride Oral Solution	NMDA receptor antagonist	Treating senile dementia	Obtained approval for clinical trial	3 years	Cannot yet be ascertained *(Note 3)*
4	Darbufelone Mesilate Tablets	NSAIDs (Non-steroid anti-inflammation drugs)	Expectant treatment with rheumatoid arthritis, arthropathy	Obtained approval for clinical trial	5 years	Cannot yet be ascertained *(Note 3)*
5	Compound Isosorbide Mononitrate Sustained Release Tablets	Antianginal agents	Preventing angina pectoris, treating coronary occlusion	Obtained approval for clinical trial	3 years	Cannot yet be ascertained *(Note 3)*
6	Guanxinshengmai Granules	Chinese medicine for cardio-vascular disease	Treating coronary artery disease, angina pectoris, or arrhythmia	Obtained approval for clinical trial	3 years	Cannot yet be ascertained *(Note 3)*
7	Qinlong Granules	Chinese medicine for hepatitis	Helpful for hepatitis	Obtained approval for clinical trial	4 years	Cannot yet be ascertained *(Note 3)*
8	Alosetron Hydrochloride Tablets	5-HT3 receptors antagonist	Useful to intestinal syndrome	Obtained approval for clinical trial	4 years	Cannot yet be ascertained *(Note 3)*
9	Pseudoephedrine Hydrochloride and Triprolidine Hydrochloride Oral Solution	Anti-cold-drug	Alleviating the syndrome of cold	Obtained approval for clinical trial	3 years	Cannot yet be ascertained *(Note 3)*
10	Amoxicillin Sulbactam Pivoxil Capsules	Compound antibiotics with β-lactamase inhibitors	Broad-spectrum resistance to infections	Obtained approval for clinical trial	3 years	Cannot yet be ascertained *(Note 3)*
11	Amoxicillin Sulbactam Pivoxil for Suspension	Compound antibiotics with β-lactamase inhibitors	Broad-spectrum resistance to infections	Obtained approval for clinical trial	3 years	Cannot yet be ascertained *(Note 3)*
12	Piperacillin Sodium and Tazobactam Sodium for Injection (4:1)	Compound antibiotics with β-lactamase inhibitors	Helpful to all kinds of infections such as respiratory system infections, digestive canal infections, gynecology infections, etc.	Proposal design	3 years	2008 *(Note 2)*

Notes:

1. The expected time for obtaining Drug Registration Approval was estimated by the Directors on the basis that (i) registration can be successfully completed based on the laws and regulations relating to the registration of pharmaceutical products currently in force in the PRC and the Group's previous experience in obtaining Drug Registration Approvals; (ii) the registration procedures which are currently being reviewed by the SFDA will remain substantially the same; and (iii) no material difficulty arises in connection with the application for registration process.

2. The Group currently expects to launch these products shortly after their Drug Registration Approvals have been obtained. For the other products listed in the table above, the Group will, depending on market conditions, customer demand and pricing, decide on when each of them will be launched after Drug Registration Approvals have been obtained.

3. The expected time for obtaining the Drug Registration Approval cannot currently be ascertained as the clinical trial for this product is still at an initial stage.

The clinical trial of a product includes the key stages of application for approval from the SFDA to commence clinical trial, clinical observation, checks, recording of results, analysis, conclusion and reporting.

As at the Latest Practicable Date, the Group had not applied for patent registration for any of the products listed under the paragraph headed "Products under development" above. This is because, to the knowledge of the Directors, patent protection for chemical formula which is a modification of an existing formula may be difficult to obtain in the PRC if the major active ingredients of the drug and the associated formulation techniques are already publicly known at the time of the application for patent registration is made. Even if patent registration can be obtained by the Group for its product, it may be difficult to stop other manufacturers from producing competing products with similar curative effects based on other modifications to the same underlying chemical formula. Hence, the Directors consider it is not commercially beneficial for the Group to apply for patent registration for the 26 finished products under development (which were (i) pending Drug Registration Approvals or (ii) had obtained approvals for clinical trial or undergoing clinical trial in the PRC) listed under the paragraph headed "Products under development" above at this stage. The Group will review and assess the necessity for the protection of intellectual property rights relating to its products (including by way of patent registration) from time to time. The introduction of any of those 26 finished products under development by the Group as at the Latest Practicable Date to the market will depend on a number of factors such as whether the necessary regulatory approvals can be obtained, market conditions, customer demand and pricing.

RAW MATERIALS AND SUPPLIERS

Raw materials

The key raw materials purchased by the Group for its production during the Track Record Period are listed in the following table *(Note)*:

	For the year ended 31 December					
	2004		**2005**		**2006**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Penicillin G potassium salt	143,223	21.6	14,320	1.5	–	0.0
7-ACA	131,706	19.9	185,547	19.6	199,901	21.8
Amoxicillin sodium and clavulanate potassium	1,214	0.2	6,635	0.7	–	0.0
Clavulanate potassium and avicel	9,850	1.5	887	0.1	–	0.0
Corn starch	11,100	1.7	56,757	6.0	69,071	7.5
Corn	1,252	0.2	14,901	1.6	26,070	2.9
Phenylacetic acid	4,126	0.6	20,971	2.2	26,852	2.9
HPG dane salt	53,587	8.1	101,921	10.8	131,761	14.4
Sulbactam acid	13,104	2.0	26,886	2.8	42,418	4.6
MAEM	26,429	4.0	35,491	3.8	30,585	3.3
Dane salt	18,847	2.8	21,959	2.3	31,594	3.5
Non-aseptic ceftriaxone sodium	33,935	5.1	60,930	6.4	42,804	4.7
Acetone (aqueous)	28,499	4.3	30,311	3.2	34,091	3.7
Other supplements and raw materials	185,416	28.0	368,605	39.0	281,761	30.7
Total cost of key raw materials	662,288	100.0	946,121	100.0	916,908	100.0

Note:

Before its production plant in Chengdu commenced production, the Group had to purchase penicillin G potassium salt (for further processing into 6-APA), 7-ACA and β-lactamase inhibitor type bulk medicine from third party suppliers. After the Chengdu plant commenced production in 2004, the Group was able to produce 6-APA from seeds cultivated from corn starch or corn. Corn starch and corn, therefore, replaced penicillin G potassium salt as two of the key raw materials. The Group also became capable of producing β-lactamase inhibitor type bulk medicine from T-octylammonium clavulanate and hence, amoxicillin sodium and clavulanate potassium and clavulanate potassium and avicel, being β-lactamase inhibitor type bulk medicine, ceased to be key raw materials.

Given the decreasing market price of 7-ACA and the increasing demand and market price of 6-APA in the PRC in the year ended 31 December 2006, the Group had been using its production facilities at its Chengdu plant, which may be used interchangeably for the production of both 6-APA and 7-ACA, mostly for the production of 6-APA (both for internal consumption and sales to third party customers) and purchasing a significant portion of 7-ACA (instead of producing its own 7-ACA) for its production of bulk medicine from third party suppliers. The Group considers this to be an effective allocation of its resources which was in its best commercial interests in the light of prevailing market conditions. In certain cases, the Group purchased 7-ACA from third party suppliers specified by its customers for the production of bulk medicine pursuant to the purchase orders placed by them with the Group. Hence, 7-ACA remained to be a key raw material purchased by the Group for the year ended 31 December 2006.

The Group conducts sample inspection and testing on all raw materials, including the intra-group supplies of intermediate products and bulk medicine, upon delivery and before storage to ensure that they meet the Group's quality standards. The Group has its own storage facilities for raw materials at each of its production plants in Chengdu, Zhuhai, Zhongshan, Kaiping and Hong Kong.

The Group had not encountered any significant fluctuation or disruption in the supply of any of its key raw materials during the Track Record Period apart from market fluctuations in the supply of penicillin G potassium salt which the Group no longer requires after the commencement of production at its production plant in Chengdu.

Suppliers

The Group typically enters into short-term contracts with its suppliers with an effective term of one year or less or purchases from them by placing individual purchase orders. The Group selects its suppliers primarily on the basis of the quality and price of their supplies.

The Group pays for its purchases from third party suppliers mostly by bills of exchange (承兑匯票) and telegraphic remittance. The Group pays for most of its purchases of key raw materials in Renminbi. In the year ended 31 December 2006, most of the Group's purchases of raw materials were made on credit terms, with credit periods of up to 120 days, while the remainder was paid for on delivery. All intra-group purchases of intermediate products and bulk medicine are settled in Renminbi except for bulk medicine supplied to United Laboratories Hong Kong which is paid for in US dollars.

In each of the three years ended 31 December 2004 and 2005 and 2006, the Group's five largest suppliers, together, accounted for approximately 31.8%, 38.1% and 32.6%, and its largest supplier accounted for approximately 11.5%, 14.0% and 8.9%, of its total purchase, respectively (in both cases, excluding all intra-group supplies of intermediate products and bulk medicine).

The Group's five largest suppliers in the year ended 31 December 2006 were suppliers of raw materials, of whom one was a supplier of 7-ACA. The Group has had business dealings with three of these suppliers for over five years.

None of the Directors or to the Directors' knowledge, any shareholder of the Company who held more than 5% of the issued share capital of the Company as at the Latest Practicable Date or any of their respective associates had any interest in any of the five largest suppliers of the Group in any of the three years ended 31 December 2004, 2005 or 2006.

SALES AND MARKETING

Sales

Overview

Historically, the Group's sales in the first and fourth quarters of each year (that is, during the winter season) are in general better when compared to the second and third quarters. The following table shows a breakdown of the Group's turnover by product category for each of the three years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December					
	2004		**2005**		**2006**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Intermediate products	**0**	**0**	**53,903**	**3.1**	**197,373**	**9.5**
6-APA *(Note 1)*	–	0	53,903	3.1	186,696	9.0
7-ACA *(Note 2)*	–	0	–	0	10,677	0.5
Bulk medicine	**639,897**	**53.3**	**896,447**	**52.1**	**1,077,294**	**51.8**
Semi-synthetic penicillin type	311,310	25.9	405,830	23.6	593,991	28.6
Cephalosporins type	315,663	26.3	464,263	27.0	439,316	21.1
β-lactamase inhibitor type	12,924	1.1	26,354	1.5	43,987	2.1
Finished products and capsule casings	**560,207**	**46.7**	**770,092**	**44.8**	**805,812**	**38.7**
Semi-synthetic penicillin antibiotics	263,693	22.0	424,330	24.7	434,369	20.9
Ampicillin capsules (250mg)	97,543	8.1	163,704	9.5	166,390	8.0
Ampicillin capsules (500mg)	–	–	–	–	1,042	0.1
Amoxicillin capsules (250mg)	85,100	7.1	134,583	7.8	123,537	5.9
Amoxicillin capsules (500mg x 12 capsules)	3,740	0.4	3,991	0.2	3,022	0.2
Amoxicillin capsules (500mg x 24 capsules)	50,352	4.2	93,100	5.5	112,223	5.4
Amoxicillin granules	25,561	2.1	27,380	1.6	27,037	1.3
Amoxicillin tablets	57	0.0	–	–	–	–
Amoxicillin sodium for injection (0.5g)	1,340	0.1	1,572	0.2	545	0.0
Amoxicillin sublbactam pivoxyl tablets	–	–	–	–	573	0.0
Cephalosporins antibiotics	61,065	5.1	35,543	2.1	48,151	2.3
β-lactamase inhibitor antibiotics	116,002	9.7	153,299	8.9	154,535	7.4
Other finished products *(Note 3)*	101,455	9.4	138,331	8.0	152,111	7.3
Capsule casings	17,992	1.5	18,590	1.1	16,646	0.8
Total	**1,200,104**	**100**	**1,720,442**	**100**	**2,080,479**	**100**

Notes:

1. Includes only 6-APA produced by the Group at its production plant in Chengdu using what the Group refers to as the direct extraction method.

2. Commercial production of 7-ACA only commenced in 2006.

3. Products under the category "Other finished products" include non-antibiotics finished products such as cough syrup and anti-allergy medicine.

4. Among the products grouped under the categories of "Semi-synthetic penicillin", "Cephalosporins", "β-lactamase inhibitor" and "Other finished products", the two highest selling products for the year ended 31 December 2006, being Oral Compound Codeine Phosphate and Piperacillin sodium and tazobactam sodium for injection, accounted for approximately 3.0% and 2.2% respectively of the Group's turnover during such year.

Customers

Currently, the Group's sales are mostly made to customers in the PRC. The Group also sells a proportion of its products overseas, being primarily bulk medicine to Germany, Korea and India. For the three years ended 31 December 2004, 2005 and 2006, the Group's turnover derived from sales in the PRC accounted for approximately 90.1%, 87.7% and 78.6%, while turnover derived from sales outside the PRC accounted for approximately 9.9%, 12.3% and 21.4% of its total turnover in those years, respectively. The Group sells its finished products to pharmaceutical distributors and its intermediate products and bulk medicine to distributors and other pharmaceutical manufacturers. The percentage of the Group's turnover derived from sales made through distributors accounted for approximately 55.6%, 53.5% and 51.1% for the three years ended 31 December 2004, 2005 and 2006, respectively, while the remainder was made directly to other pharmaceutical manufacturers.

The following map shows the countries in which the Group's customers are located:

As at 31 December 2006, the Group had 183 direct customers for its finished products in the PRC, all of whom were pharmaceutical distributors. Of those customers, 83 dealt with the Group on credit terms with a credit period ranging from 45 to 60 days after delivery, while others were required to make payment prior to delivery. The Group seeks to establish long term co-operation relationships with these distributors. The Group enters into annual supply agreements with all its customers, but only grants credit to those with whom it has an established relationship and/or to those who place larger orders. The Group does not pay any remuneration to any of the distributors who purchase the Group's products for onward sales to end-users, such as hospitals and sub-distributors.

In February 2007, the Department of Health of the Hong Kong Government accepted the Group's offer to supply ampicillin capsules, being a semi-synthetic penicillin type antibiotics finished product for a period of 24 months with effect from March 2007. Prior to this, the Group had supplied amoxicillin capsules to the Hong Kong Government from April 2006 under a 12-month contract.

The Group sells a minor portion of its finished products to customers in Hong Kong (including to the Hong Kong Government described above) and Mexico.

None of the Group's customers have entered into exclusive distribution agreements with the Group to distribute exclusively the Group's finished products. The Group seeks to maintain its competitiveness over other pharmaceutical manufacturers by setting competitive prices on its products; offering discounts to customers who place large orders or make payment before the expiry of the credit period allowed by the Group; providing sales support to distributors, such as organising seminars to introduce the Group's products to end-users; as well as providing training and market updates to the management personnel and sales staff of distributors.

The Group sells both its bulk medicine and intermediate products in the PRC either to distributors or directly to pharmaceutical manufacturers. The Group is not required under PRC law to obtain any approval, licence or certificate to engage in the sale of its intermediate products and bulk medicine in the PRC.

The Group sells its bulk medicine to overseas customers through the following arrangements:

(i) *Direct sales to overseas pharmaceutical manufacturers* – where purchase orders are placed directly by pharmaceutical manufacturers with the Group and delivery is made by the Group to such manufacturers. These sales are paid for mainly by letters of credit or telegraphic transfer.

(ii) *Sales to overseas distributors* – where purchase orders are placed by overseas distributors with the Group and delivery is made by the Group to such distributors. The products are paid for mainly by letters of credit or telegraphic transfer.

(iii) *Sales to overseas pharmaceutical manufacturers through overseas distributors* – where purchase orders are placed by overseas distributors with the Group on behalf of overseas pharmaceutical manufacturers and delivery is made by the Group to such manufacturers. The products are paid for mainly by letters of credit, or telegraphic transfer. The Group pays a commission to the distributor who arranges the sale upon receipt of payment from the manufacturer.

All of the Group's sales of intermediate products to overseas customers were made through the arrangement described in paragraph (iii) above during the Track Record Period. The Group may sell its intermediate products through the other two arrangements described above in future.

Hospitals owned or controlled by the PRC Government at county and higher level use a collective tender process for the purchase of certain medicine, including those listed in the Insurance Catalogue and those that have a high volume of consumption and are commonly prescribed for clinical use. Some of the Group's products are sold to hospitals through such tender process. The Directors believe that pharmaceutical manufacturers such as the Group who have obtained individual pricing approval for their products, have good credit standing and produce a wide range of products, are likely to have competitive advantages over other manufacturers in such tender process. The Directors do not consider that such tender process creates any additional price pressure on the Group's products.

As at 31 December 2006, the Group had 56 customers for its intermediate products (of whom 28 were pharmaceutical manufacturers and 28 were distributors) and 587 customers for its bulk medicine (of whom 203 were pharmaceutical manufacturers and 384 were distributors).

For each of the three years ended 31 December 2004, 2005 and 2006, the Group's five largest customers, together, accounted for approximately 46.7%, 15.8% and 24%, and its largest customer accounted for approximately 30%, 4.4% and 8.4%, of its total turnover, respectively (in both cases, excluding all intra-group sales of intermediate products and bulk medicine).

Three of the Group's five largest customers in the year ended 31 December 2006 were distributors of pharmaceutical products while two were manufacturers of pharmaceutical products. The Group has established business relationships with two of these customers for over five years.

None of the Directors or to the Directors' knowledge, any shareholder of the Company who held 5% or more of the issued share capital of the Company as at the Latest Practicable Date or any of their respective associates had any interest in any of the five largest customers of the Group in the three years ended 31 December 2004, 2005 or 2006.

The major distributors of the Group's products in the PRC include Shanghai Medical Company Limited (上海醫工院醫藥股份有限公司), Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司), Guangxi Kangle Pharmaceutical Company Limited (廣西康樂藥品有限責任公司), Hubei Yifan Pharmaceutical Company Limited (湖北一帆醫藥有限公司), Shanghai Pioneer Huakang Pharmaceutical Company Limited (上海新先鋒華康醫藥有限公司) and Yunnan Pharmaceutical Industrial Company Limited (雲南醫藥工業股份有限公司). All of those companies are principally engaged in the distribution of pharmaceutical products, including antibiotics, Chinese medicine and bio-chemical medicine. Three of them, namely Shanghai Pharmaceutical Company Limited, Shanghai Pioneer Huakang Pharmaceutical Company Limited and Yunnan Pharmaceutical Industrial Company Limited, ranked (or were part of a larger group of companies that ranked) among the top 100 pharmaceutical enterprises in the PRC in 2004, according to the PRC Pharmaceutical Management Association (中國醫藥企業管理協會). The business operations of these major distributors extend to different parts of the PRC and the Group has conducted business with them for periods ranging from three to seven years.

Sales terms, credit and provisioning policy, return policy and revenue recognition

The Group typically enters into short-term contracts with its customers with a term of one year or sells to them on the basis of individual purchase orders. All sales made by the Group in the PRC are settled in Renminbi. Sales made directly by the Group to overseas customers are all settled in US dollars. During the Track Record Period, only a small number of the Group's customers for bulk medicine were required to settle the full purchase price in cash before delivery. The credit periods that are normally granted by the Group to its customers are as follows:

Domestic intermediate products customers	0 to 30 days
Overseas intermediate products customers	0 to 90 days
Domestic bulk medicine customers	30 to 90 days
Overseas bulk medicine customers	30 to 120 days
Domestic finished products customers	45 to 60 days

The Group does not have any hedging policies to reduce currency risks but may from time to time engage in currency hedging activities where necessary.

The Group has established finance departments at each of its five production plants in Zhuhai, Zhongshan, Kaiping, Chengdu and Hong Kong respectively, as well as a separate finance team for overseeing the sales division for finished products in the PRC. Each of these finance departments and the finance team is headed by a different individual, three of whom are Hong Kong qualified accountants. The head of each finance department reports to the Company's Chief Financial Controller, except for the finance department in Hong Kong which is headed by the Chief Financial Controller. The Group has established two credit risk teams with specific responsibility for closely monitoring the credit and payment status of its customers for finished products and bulk medicine, respectively.

The Group encourages early payment by customers (particularly, customers of finished products) by offering cash discounts to those who make payment before the expiry of the credit period allowed by the Group. The Group performs regular reconciliation with customers on their outstanding balances by obtaining written confirmations from them, setting credit limits specific to each new customer and regularly reviewing its customers' financial position. Management approval is required for a change in the credit limit set for any customer. The Group encourages payment by documentary credit for overseas customers.

The Group's provisioning policy for accounts receivables is determined on a case-by-case basis and there is no general policy on making full provision for doubtful debts. The Group adopts a full provision policy for stock which are obsolete or which are of poor quality. For inventory with a cost below its net realisable value, provision is made for the difference between its cost and market price.

The Group under normal circumstances does not accept return of products sold, except where there are quality defects. The Group did not have any return of intermediate products during the Track Record Period. The Group had returns of bulk medicine and finished products with an aggregate value (before value added tax) of RMB0.6 million (approximately HK$0.6 million), RMB4.6 million (approximately HK$4.7 million) and RMB0.7 million (approximately HK$0.7 million) in each of the three years ended 31 December 2004, 2005 and 2006, respectively. These returns were related to the quality of the packaging of products as well as to damage to their packaging in the transportation process.

On the basis of the Group's accounting policies, sales of goods are recognised when the goods are delivered, title has passed and the risks and rights relating to the goods have been transferred to the customer in accordance with the sales contract between the Group and the customer. The risk and rights are in general transferred to the Group's customers when the products are delivered to the customer's storage or upon cargo receipt. The Directors believe such policy is appropriate in view of the Group's goods return policy and the amount of goods returned during the Track Record Period.

Sales offices and sales staff

The Group has established an extensive sales and marketing network for its antibiotics and other finished products, comprising 24 sales offices which cover all the provinces, autonomous regions and directly-administered municipalities in the PRC except the Tibet Autonomous Region and Inner Mongolia Autonomous Region. This network provides the Group with extensive market coverage and customer reach in different parts of the PRC. Through its sales offices, the Group also collects customer feedback on its products as well as local market intelligence.

The following map shows the location of the Group's 24 sales offices in the PRC and the cities, provinces and/or directly-administered municipalities covered by them as at the Latest Practicable Date:

Notes:

1. The shaded area shown above are the provinces, autonomous regions and directly-administered municipalities covered by the 24 sales offices.

2. The sales office located in Xian, Shaanxi Province, is responsible for covering sales and marketing activities in Ningxia Huizu Autonomous Region as well as Shaanxi, Gansu and Qinghai provinces.

3. The sales office located in Harbin, Heilongjiang Province, is responsible for covering sales and marketing activities in Heilongjiang and Jilin provinces.

4. The sales office located in Foshan, Guangdong Province, is responsible for covering sales and marketing activities in Guangdong and Hainan Provinces.

As at 31 December 2006, the Group had 800 sales representatives stationed among its 24 sales offices. The sales representatives, who are all employees of the Group, are responsible for the sales of the Group's antibiotics and other finished products and work together with the Group's customers, being predominantly distributors of pharmaceutical products, in promoting the Group's products to hospitals, clinics and sub-distributors. Discussions of annual sales plans and negotiation of sales contracts between the Group and its customers are also usually conducted by its sales representatives. Apart from its 24 sales offices, the Group has also established a separate sales team for the sales and marketing of its intermediate products and bulk medicine. The Group has adopted a performance based incentive scheme for its sales staff.

The Group provides training to its new sales staff shortly after commencement of their employment. Ongoing training is provided by the Group to its sales staff from time to time. The training provided to sales staff of finished products generally focuses on providing them with detailed knowledge of those products, including their chemical composition, curative effects and usage instructions as well as any other information which is necessary for them to market those products to distributors and at seminars for introducing the Group's products to end-users.

The Group's sales representatives are not required under PRC law to hold any licence in the performance of their duties. Customers of the Group who are engaged in the distribution or sale of the Group's finished products in the PRC are required under PRC law to obtain Drug Operation Certificates in the PRC. The Group usually requires its customers who are engaged to distribute its finished products in the PRC to warrant and undertake, in the distribution agreements, that they have obtained the necessary licences and/or certificates for it to sell and/or distribute the Group's products in the PRC.

The Group has established a sales committee to coordinate sales of its finished products. This committee holds quarterly meetings to review sales performance and to discuss market developments and marketing strategies. Through its regular meetings, this committee ensures that the Group effectively monitors any significant changes in market conditions and responds to such changes in a timely manner.

The Group has also established an internal audit department for monitoring finance-related matters of its 24 sales offices in the PRC. One of the key responsibilities of the internal audit department is to compile and approve the annual budget for the Group's sales and marketing expenses for finished products. It enables the Group to maintain effective control over the allocation of its financial resources in sales and marketing activities.

Inventory control

The sales managers of each of the 24 sales offices are required to report to the Group's business department on a half-monthly basis on the quantity of finished products sold in the region covered by such sales office. This enables the Group to maintain an up-to-date record of sales and stock movements and to minimise keeping excessive stock.

Previous incident involving regulatory non-compliance in the PRC

In June 2006, the Group was fined RMB200,000 (equivalent to approximately HK$203,009) by the Administration for Industry and Commerce in Qingshan Lake District in Nancheong (南昌市青山湖區工商行政管理局) ("Qingshan Lake AIC") because two of its employees had provided benefits to pharmaceutical distributors and hospital representatives in the PRC in 2004, 2005 and 2006. Such acts of the employees were against paragraph 1 of rule 8 of the Law of the PRC Against Unfair Competition (中華人民共和國 反不正當競爭法) and rule 2 of the Provisional Regulations on the Prohibition of Commercial Bribery Acts (關於禁止商業賄賂行為的暫行規定).

The PRC legal advisers to the Company have confirmed that the acts in breach committed by the two employees of the Group in 2004, 2005 and 2006 described above will not cause the Group to be subject to criminal prosecution under PRC law. According to the Law of the PRC on Administrative Penalty (行政處罰法), only the judiciary has jurisdiction to preside over any breach of law which constitutes a criminal offence in the PRC. Administrative departments do not have the jurisdiction to preside over criminal offences. The PRC legal advisers to the Company are of the view that the acts in breach described above will not cause the Group to be subject to criminal prosecution as (a) the Qingshan Lake AIC, being the only governmental department that is entitled to refer the acts in breach to the judiciary, did not make such referral and dealt with such offences by imposing an administrative penalty on the Group; and (b) the amount of benefits provided by those employees of the Group was below the threshold for criminal prosecution. The PRC legal advisers to the Company have also confirmed that the Group will not be subject to any further administrative fine penalties in relation to any of the above acts in breach.

The Group terminated the employment of the two employees involved in the incident in 2006. The Directors have confirmed that the acts of those employees were not directed or authorised by the management of the Group and they were in breach of their undertakings to the Group which required them to perform their duties in compliance with applicable laws and regulations. Following this incident, the Group has reviewed and taken steps to tighten its sales and finance management procedures, such as undertaking regular review of the Group's sales and finance matters by the Group's audit department; closely monitoring the Group's sales and finance matters by the senior management of the sales offices of the Group, revision of the Group's sales and finance management standards, as well as providing additional training for the Group's sales and other staff to increase their awareness of bribery-related acts offences. The Directors are of the view that such tightened controls and measures are adequate in minimising the occurrence of similar incidents in future.

Marketing

The Group sells its finished products pre-dominantly to pharmaceutical distributors for onward distribution or sale to hospitals, clinics or pharmacies and its intermediate products and bulk medicine to distributors and other pharmaceutical manufacturers. All distributors of the Group's products are Independent Third Parties whose business operations are independent from the Group. The Group sells its bulk medicine, intermediate products and finished products to different distributors. The Group sells its finished products to pharmaceutical distributors rather than engaging in direct sales to end-users such as hospitals or clinics or retail customers as this allows the Group to focus on establishing and maintaining its relationship with a more defined number of customers which the Directors believe, allows the Group to manage its sales and marketing

resources more efficiently. The Group also benefits from the established customer network of such distributors. The Directors believe such strategy has historically proven to be effective and successful in enabling the Group's products to be distributed and sold to a large number of hospitals and clinics throughout the PRC.

The Group will continue to adopt the sales and marketing strategy of working closely with pharmaceutical distributors located in different parts of the PRC for the sales and marketing of its antibiotics and other finished products. Given the vast geographical expanse of the PRC market, the Directors consider that establishing long term business relationship with pharmaceutical distributors in different locations and working closely with them to sell and market the Group's products remains to be the Group's preferred sales and marketing strategy. For intermediate products and bulk medicine, the Group will continue to adopt the strategy of selling directly to other pharmaceutical manufacturers as well as through distributors of pharmaceutical products, both in the PRC and overseas.

As a large number of the Group's finished products are prescription medicine, the Group's marketing activities for such products are primarily directed at doctors in clinics or hospitals, which include hosting seminars from time to time for doctors to introduce the Group's products to them. For products which are non-prescription medicine, the Group generally advertises in medical journals, hospitals and clinics. While the Group sells its finished products to distributors, it also maintains direct contact with the hospitals, clinics, pharmacies and other customers to whom such distributors sell and hosts seminars which such distributors will also participate to promote and explain the use and curative effect of the Group's products. The Directors consider the Group's active participation in sales and marketing activities for hospitals, clinics, pharmacies and doctors to be crucial as it helps ensure that accurate and comprehensive information on the Group's products are provided.

During the Track Record Period, major marketing events organised by the Group for the promotion of its antibiotics and other finished products included seminars for doctors in hospitals and clinics, while those for the promotion of its intermediate products and bulk medicine included pharmaceutical trade exhibitions in and outside the PRC.

The Group has been involved in a wide range of charitable activities. It has established the United Laboratories Medical Education Scholarship (聯邦醫學教育獎學金) which provided scholarships amounting to RMB38 million (equivalent to approximately HK$39 million) to outstanding students at various medical colleges and universities in the PRC. In 1998, the Group donated RMB1 million (equivalent to approximately HK$1 million) worth of medicine to residents in Hubei Province affected by serious flooding from the Yangtze River, and also made donations of RMB100,000 (equivalent to approximately HK$101,504) worth of medicine to residents in each of Hunan, Jiangxi and Guangdong Provinces. In the same year, the Group used RMB2 million (equivalent to approximately HK$2 million) to establish the Guangdong (United Laboratories) Youth Scientist Fund (廣東(聯邦制藥)青年科學家基金) and the Disadvantaged University Students Schooling Fund (特困大學生助學基金) to provide scholarships to outstanding youth scientists and university students.

The Directors believe that the Group's origins as a pharmaceutical manufacturer in Hong Kong has been one of the key factors that helped the Group build up its market reputation in the PRC and enhance the image of its products. Hence, the Directors consider that it is important for the Group to retain its production operations and the production of certain of its key products in Hong Kong notwithstanding the higher production costs when compared to the PRC. The Group also intends to use Hong Kong as a base for further developing the Group's sales to markets outside the PRC.

The Group's sales and marketing expenses in each of the three years ended 31 December 2004, 2005 and 2006 amounted to HK$125.3 million, HK$261.2 million and HK$284.1 million, respectively.

PRICING

The PRC Government imposes price controls over a wide range of pharmaceutical products in the PRC. All medicine listed in the Drugs Pricing Catalogue are subject to price controls by the PRC Government which, in principle, include all medicine listed in the Insurance Catalogue. Patients in the PRC who are covered by the State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme will be entitled to partial reimbursement of the costs of medicine listed in the Insurance Catalogue (the percentage of which varies in different regions in the PRC). Further details on the Drugs Pricing Catalogue and the Insurance Catalogue are set out in the paragraph headed "Price controls" under the section headed "Regulatory framework" of this prospectus.

Of the 52 antibiotics and other finished products produced by the Group in the PRC and the four finished products in production in Hong Kong (three of which were also in production in the PRC) as at 31 December 2006, 34 antibiotics finished products and six non-antibiotics finished products were subject to government-mandated price controls. A retail ceiling price is set (and revised from time to time but not at regular intervals) either by the NDRC or by the provincial level pricing department for each such product. Even though the Group does not engage in any retail sales in the PRC, the imposition of a retail ceiling price on certain of its antibiotics finished products indirectly restricts the price at which the Group is able to sell those products to its distributors. To the Directors' knowledge, the major distributors of the Group's finished products will, when determining the price at which those products are to be sold to their customers, take into account factors such as the retail ceiling prices set by the PRC Government for and the costs of those products, their relationship with the customers and market supply and demand.

Among the 39 finished products in production in the PRC and the four finished products in production in Hong Kong (three of which were also in production in the PRC) as at 31 December 2006 which were subject to government-mandated price controls, the Group has obtained PRC governmental approval for individual pricing in relation to five of those products. Approval for individual pricing allows each of these five products to be sold at a specified retail price that is higher than the retail ceiling price prescribed by the PRC Government and the specified retail price becomes the maximum retail price at which such product may be sold. Such approval was granted on the basis of factors such as the quality, curative effect and safety of each product in accordance with the price control regulations. In relation to any product for which individual pricing approval has been obtained, on each occasion when the prescribed retail ceiling price of such product is adjusted by the PRC Government, the Group will have to re-apply for individual pricing approval for such product.

Sales in the PRC of the five finished products in production by the Group and which were subject to individual pricing as at 31 December 2006, together, accounted for approximately 48.6%, 56.4% and 54.8% of the Group's sales of finished products and capsule casings in the three years ended 31 December 2004, 2005 and 2006, respectively.

While approval for individual pricing with respect to any finished product provides the Group with indirect increased flexibility in setting the wholesale price at which such product may be sold to its customers, the Group still has to take account of the sales price set by its competitors (including those who do not have individual pricing approval) to ensure that its products remain sufficiently competitive. Hence, approval for individual pricing for any of the Group's finished products does not entirely preclude the effects of any reduction in the retail ceiling prices of such products by the PRC Government.

A list of antibiotics finished products whose retail ceiling prices were reduced by the PRC Government in 2004, 2005 and 2006 respectively and which were sold by the Group in the corresponding year pursuant to the "Notice on the reduction of retail price of 24 types of anti-inflammatory drugs" (《關於降低24種抗感染類藥品零售價格的通知》) issued by the NDRC in May 2004, the "Notice on the reduction of retail price of 22 types of drugs including cefuroxime axetil" (《關於降低頭孢呋辛等22 種藥品零售價格的通知》) issued by the NDRC in September 2005 and the "Notice on the reduction of retail ceiling prices for 99 anti-microorganism drugs" (《關於制定青霉素等99種抗微生物藥品最高零售價格的通知》) issued by the NDRC in August 2006, respectively is set out below:

	Product	**Dosage and packaging**	**Medicine type** *(Note 1)*	**Maximum retail price before reduction** *(RMB)*	**Maximum retail price after reduction** *(RMB)*	**Percentage of decrease**
2004						
1.	Amoxicillin Sodium for Injection	0.5g	S	7.5	5.6	25.3%
2.	Amoxicillin Capsules	500mgx12	S	17.2 *(Note 2)*	13.8 *(Note 2)*	19.8%
		500mgx24		34.2 *(Note 2)*	27.4 *(Note 2)*	19.9%
3.	Amoxicillin Capsules	250mgx24	S	19.6 *(Note 2)*	15.7 *(Note 2)*	19.9%
4.	Amoxicillin Granules	125mgx12	S	12.8 *(Note 2)*	10.2 *(Note 2)*	20.3%
5.	Amoxicillin Tablets	125mgx12	S	6.8 *(Note 2)*	5.4 *(Note 2)*	20.6%
6.	Cefuroxime Axetil Tablets	250mgx6	C	34.0	24.8	27.1%
		250mgx12		66.0	48.3	26.8%
7.	Cefoperazone Sodium for Injection	1g	C	38.0	22.4	41.1%
8.	Cefoperazone Sodium for Injection	2g	C	75.0	40.3	46.3%
9.	Ceftriaxone Sodium for Injection	1g	C	40.0	20.0	50.0%
10.	Ceftriaxone Sodium for Injection	2g	C	78.0	35.0	55.1%
11.	Cefotaxime Sodium for Injection	1g	C	17.0	10.0	41.2%
12.	Cefotaxime Sodium for Injection	2g	C	34.0	17.5	48.5%
13.	Ceftazidime for Injection	1g	C	80.0	50.0	37.5%

	Product	Dosage and packaging	Medicine type *(Note 1)*	Maximum retail price before reduction *(RMB)*	Maximum retail price after reduction *(RMB)*	Percentage of decrease
14.	Amoxicilin and Clavulanate Potassium Tablets	0.457gx6	β	38.3	25.6	33.2%
		0.457gx12		72.48	50.0	31.0%
15.	Amoxicillin Sodium and Clavulanate Potassium for Injection	1.2g	β	48.0	38.0	20.8%
16.	Amoxicillin Sodium and Clavulanate Potassium for Injection	0.6g	β	25.0	21.0	16.0%
17.	Ampicillin Sodium and Sulbactam Sodium for Injection	0.75g	β	20.0	11.3	43.5%
18.	Ampicillin Sodium and Sulbactam Sodium for Injection	1.5g	β	39.0	20.3	47.9%
19.	Amoxicillin and Clavulanate Potassium Tablets	375mgx12	β	81.0	64.8	20%
		375mgx6		42.0	33.0	21.4%
20.	Levofloxacin Hydrochloride Capsules	100mgx10	O	35.5	21.2	40.3%
21.	Azithromycin Dispersible Tablets	250mgx6	O	57.0	46.0	19.3%
22.	Roxithromycin Capsules	150mgx12	O	35.5	23.6	33.5%
2005						
1.	Cefuroxime Axetil Tablets	250mgx6	C	24.8	19.8	20.2%
		250mgx12		48.3	38.6	20.1%
2.	Cefoperazone Sodium for Injection	1g	C	22.4	10.0	55.4%
3.	Cefoperazone Sodium for Injection	2g	C	40.3	17.0	57.8%
4.	Ceftriaxone Sodium for Injection	1g	C	20.0	10.0	50.0%
5.	Ceftriaxone Sodium for Injection	2g	C	35.0	17.0	51.4%
6.	Ceftazidime for Injection	1g	C	50.0	18.0	64.0%
7.	Cefoperazone Sodium and Sulbactam Sodium for Injection	2g	C	79.6	35.7	55.2%
8.	Azithromycin Dispersible Tablets	250mgx6	O	46.0	27.3	40.7%
9.	Levofloxacin Hydrochloride Capsules	100mgx10	O	21.2	13.0	38.7%
2006						
1.	Ampicillin Capsules	250mgx24	S	18.8 *(Note 2)*	15.6 *(Note 2)*	17.0%
2.	Cefazolin Sodium for Injection	1g	C	6.5	3.0	53.8%
3.	Tazobactam Sodium and Piperacillin Sodium for Injection	2g/250mg	β	82.8	59.7	27.9%
4.	Tazobactam Sodium and Piperacillin Sodium for Injection	4g/500mg	β	162.0	101.0	37.7%
5.	Aciclovir Tablets	100mgx24	O	14.2	8.8	38.0%

Notes:

1. "S" – Semi-synthetic penicillin type antibiotics
   "C" – Cephalosporins type antibiotics
   "β" – β-lactamase inhibitor type antibiotics
   "O" – Others (include both antibiotics and non-antibiotics)

2. Price shown is the maximum retail price at which the Group's product is allowed to be sold under the individual pricing approval granted for the Group's such product.

3. The PRC governmental authorities only imposed price controls over the maximum retail price and no control over the price at which pharmaceutical manufacturers sell their products to their distributors.

Details relating to the impact of price reductions on the Group's results are contained under the paragraph headed "Price reductions, their impact on the Group's results and mitigating measures adopted" in the section headed "Financial Information" in this prospectus.

The top five of the 39 finished products of the Group in production in the PRC and the four finished products in production in Hong Kong (three of which were also in production in the PRC) which were subject to government-mandated price controls as at 31 December 2006, together, accounted for over 60% of the Group's annual turnover derived from sales of finished products in each of the three years ended 31 December 2004, 2005 and 2006. The table below shows the prescribed retail ceiling prices of these five products over the Track Record Period:

Antibiotics finished product	Trade mark under which the product is sold by the Group	Dosage and packaging	Prescribed retail ceiling price as at 1 January 2004 *(RMB)*	Specified retail price *(Note)* as at 1 January 2004 *(RMB)*	Prescribed retail ceiling price after price reduction announced by the NDRC in May 2004 and Guangdong Province Pricing Bureau in June 2004 respectively *(RMB)*	Specified retail price *(Note)* after price reduction announced by in May 2004 the NDRC and Guangdong Province Pricing Bureau in June 2004 respectively *(RMB)*	Prescribed retail ceiling price after price reduction announced by the NDRC in September 2005 *(RMB)*	Specified retail price *(Note)* after price reduction announced by the NDRC in September 2005 *(RMB)*	Prescribed retail ceiling price after price reduction announced by the NDRC in August 2006 *(RMB)*	Specified retail price *(Note)* after price reduction announced by the NDRC in August 2006 *(RMB)*
1. Amoxicillin capsule	阿莫仙	0.25g x 24	13.5	19.6	9.0	15.7	9.0	15.7	9.0	15.7
2. Amoxicillin capsule	阿莫仙	a) 0.5g x 24	15.0	34.2	15.8	27.4	15.8	27.4	15.8	27.4
		b) 0.5g x 12	8.0	17.2	8.1	13.8	8.1	13.8	8.1	13.8
3. Ampicillin capsule	安必仙	0.25g x 24	13.0	18.8	13.0	18.8	13.0	18.8	9.0	15.6

	Antibiotics finished product	Trade mark under which the product is sold by the Group	Dosage and packaging	Prescribed retail ceiling price as at 1 January 2004 *(RMB)*	Specified retail price *(Note)* as at 1 January 2004 *(RMB)*	Prescribed retail ceiling price after price reduction announced by the NDRC in May 2004 and Guangdong Province Pricing Bureau in June 2004 respectively *(RMB)*	Specified retail price *(Note)* after price reduction announced by in May 2004 the NDRC and Guangdong Province Pricing Bureau in June 2004 respectively *(RMB)*	Prescribed retail ceiling price after price reduction announced by the NDRC in September 2005 *(RMB)*	Specified retail price *(Note)* after price reduction announced by the NDRC in September 2005 *(RMB)*	Prescribed retail ceiling price after price reduction announced by the NDRC in August 2006 *(RMB)*	Specified retail price *(Note)* after price reduction announced by the NDRC in August 2006 *(RMB)*
4.	Amoxicillin and Clavulanate Potassium for injection	强力阿莫仙	0.6g	25.0	No individual pricing approval obtained	21.0	No individual pricing approval obtained	21.0	No individual pricing approval obtained	21.0	No individual pricing approval obtained
5.	Tazobactam Sodium and Piperacillin Sodium for Injection	联邦他唑仙	2g/250mg	82.8	No individual pricing approval obtained	82.8	No individual pricing approval obtained	82.8	No individual pricing approval obtained	59.7	No individual pricing approval obtained

Note: The specified retail price is the maximum retail price at which any product in respect of which approval for individual pricing has been obtained.

Approximately 64.3% of the Group's sales of finished products subject to government-mandated price controls in the year ended 31 December 2006 were made up by sales of finished products in respect of which governmental approval for individual pricing had been obtained.

Sales of finished products subject to government-mandated price controls as at 31 December 2004, 2005 and 2006 accounted for approximately 39.7%, 38.4% and 32.8% of the Group's total annual turnover in each of the three years ended 31 December 2004, 2005 and 2006, respectively.

COMPETITION

There were a total of 5,308 pharmaceutical manufacturing enterprises in the PRC at the end of 2006. China's pharmaceutical industry is highly fragmented and no manufacturer currently occupies a dominant position in the market. In 2006, approximately 70.1% of pharmaceutical manufacturing enterprises were small-scale enterprises with annual sales of less than RMB30 million (equivalent to approximately HK$30 million); 12.7% were medium-scale enterprises with annual sales of more than RMB30 million (equivalent to approximately HK$30 million) but less than RMB300 million (equivalent to approximately HK$305 million); and 1.2% were large-scale enterprises with annual sales of more than RMB300 million (equivalent to approximately HK$305 million). In 2006, the 10 largest pharmaceutical manufacturing enterprises in terms of sales revenue, together, accounted for only 11.9% of the total sales revenue of all pharmaceutical manufacturing enterprises in the PRC according to information compiled by Beijing Huayan Shiji Industry Consulting Co., Ltd. (北京華研世紀產業諮詢有限公司).

The Group operates in a highly competitive industry. The Group's products compete with a number of similar products manufactured and marketed by various other PRC manufacturers, some of which have financial resources, marketing capabilities and/or market share greater than the Group's. The Group's main competitors are primarily domestic manufacturers in the PRC (including those established by foreign investors or with foreign investment) who are engaged in the production of similar types of antibiotics or other finished products, bulk medicine and intermediate products as the Group. The Group has, so far, only faced limited competition from imported products produced by foreign manufacturers as the Directors believe their higher costs have prevented them from developing a significant market share in the PRC. The Group's products may also compete with new products currently under development by other manufacturers, as well as products with similar curative effects as the Group's products which are within their relevant protection or monitoring periods and upon expiry of those periods with generic equivalents.

In relation to antibiotics finished products, one of the main competitive pressures faced by the Group over the Track Record Period has been pricing, particularly for products which are subject to price controls by the PRC Government and have been affected by price reductions. The Group has actively sought to reduce the impact of such price reductions as well as price competition from other manufacturers generally through various measures. The Group has, for instance, obtained governmental approval for individual pricing which enables certain of its antibiotics finished products which are subject to price controls to be sold at a retail price above their prescribed retail ceiling prices. The Group has started to develop sales of its antibiotics finished products in rural areas and its other less established markets in the PRC with a view to reducing the impact of lowering margins through increasing sales volume. The Group has also introduced substitute products which are not subject to government-mandated price controls to replace those which have been affected by price reductions as well as engaged in the development of new non-antibiotics products. It may take time for the Group to realise fully the benefits of some of these measures such as the development of sales in rural markets and new non-antibiotics products. The Directors believe that the Group's scale of operation, vertically integrated production capability and established brand name in the PRC market provide it with key advantages over its competitors in facing the competitive challenges of the antibiotics finished products market in the PRC.

The Group's main competitors in terms of its external sales of bulk medicine in the PRC are large and medium scale pharmaceutical manufacturers who also engage in the production of bulk medicine for external sales as well as manufacturers who specialise in the production of bulk medicine in the PRC and the Group has faced increasing price competition in such sales over the Track Record Period. The Directors believe that the Group's key competitive advantage in terms of its external sales of bulk medicine is its scale of production and low production cost. The Group's ability to deliver a stable supply of high quality bulk medicine is, the Directors believe, another key factor in influencing the customers' choice of the Group as their supplier. As the Group seeks to further develop its external sales of bulk medicine in overseas markets, the Directors believe that the lower cost of the Group's production operations in the PRC will be its key competitive advantage.

The Group started to engage in the production of intermediate products at its production plant in Chengdu in 2004 and sales of such products to third party customers in 2005. The Directors are not aware that any other manufacturer who engages in the production of similar types of antibiotics finished products in the PRC has the same vertically integrated production capability as the Group. Hence, as the Group seeks to raise the utilisation rate of its production facilities for intermediate products at its new production plant in Chengdu which began production for sale to third party customers in 2005, the Directors expect that the main competitors for the Group's external sales of intermediate products in the PRC will primarily be manufacturers who specialise in producing intermediate products or petrochemical plants who produce intermediate products as one of their products. The Directors believe that the Group's key competitive advantage in its external sales of intermediate products will lie in its scale of production.

There has been a certain level of consolidation among pharmaceutical manufacturers in the PRC in recent years which have resulted in an increasing number of pharmaceutical manufacturing enterprises, particularly those with a small scale operation, being taken over by larger manufacturers or ceasing operation. The Directors believe that the key factors which have brought about such consolidation include price reductions by the PRC Government on pharmaceutical products which are subject to price controls and the resulting decrease in margins, increase in raw material and other operating costs, more intense (and often price-based) competition and the mandatory requirement for GMP certification for pharmaceutical manufacturers in the PRC (which could, depending on the extent to which production facilities have to be upgraded, involve significant compliance costs) and the revocation of their Drug Manufacturing Certificate by the SFDA for those who failed to apply for such GMP certification by 30 June 2004 or to obtain it by 31 December 2004.

Competition in the pharmaceutical market in China may also intensify. Industry reforms aimed to meet the WTO requirements may foster increased competition from multinational pharmaceutical manufacturers at the expense of China-based pharmaceutical companies.

INTELLECTUAL PROPERTY RIGHTS

The Group is engaged in the production of non-patented medicine. None of the pharmaceutical products produced by the Group as at the Latest Practicable Date were protected by registered patent.

The Group has developed and currently uses certain confidential know-how in its production process. Details of such know-how are known only to Mr Choy and a limited number of the Group's key technical personnel, all of whom have entered into confidentiality agreements with the Group. Under the terms of the confidentiality agreements entered into between the Group and those technical personnel, they have agreed not to disclose the relevant confidential know-how nor to apply it for their personal use during their term of employment and within two years or more after termination of their service contracts with the Group. Such technical personnel will, if their employment with the Group is terminated, be required to pass on the confidential know-how to other existing or new employees who will be taking up their responsibilities within the Group. The Directors do not consider that the departure of any such technical personnel will adversely affect the Group in any way in terms of the continued use of such confidential know-how. The Group is applying for patent registration in the PRC in respect of certain confidential know-how used in the production of five of its products. Details of such applications are set out in the paragraph headed "Intellectual property rights" in Appendix V to this prospectus.

The confidential know-how which the Group uses in its production has been developed over a lengthy period of time. While such know-how is currently not protected by any patent registration, the Directors do not consider that the Group will be exposed to any material risk as they believe the Group has taken appropriate measures to safeguard the confidentiality of such know-how and it would be unlikely for any competitor to develop or master similar know-how within a short span of time.

In October 2005, the Group obtained an exclusive licence for a term of 20 years from MED (Jiangxi) Biology Technology Co., Ltd. (美德(江西)生物科技有限公司), an Independent Third Party, to use certain patented technology for the production of a medicine for the treatment of hepatitis B in the PRC. Pursuant to the terms of the licence agreement, the Group paid a fee of RMB800,000 (equivalent to approximately HK$812,034) for the grant of the licence and is required to pay an annual usage fee calculated at 3.8% of its annual sales thereof during the term of the licence. The Group has made an application for regulatory approval to engage in the production of this medicine in the PRC.

As at the Latest Practicable Date, the Group had 82 registered trade marks in the PRC and Hong Kong. These registered marks include the  mark under which most of the Group's finished products are sold, as well as the product names of certain of the Group's products, including key products such as 安必仙 and 阿莫仙. The Group also holds registered patents for the packaging design of certain of its finished products. Details of the Group's trade marks and other intellectual property rights are set out in the paragraph headed "Intellectual property rights" in Appendix V to this prospectus.

As one of its measures to prevent counterfeit products, the Group uses a triple-layer packaging material made up of two layers of aluminium foil (one of which is hard aluminium foil) with a layer of plastic film in between for its finished products in tablet and capsule form. Such packaging also bears strong resistance to moisture and heat and has shading features which preserves the quality of the Group's products. The Directors believe the higher cost of this packaging material (including the cost of the equipment required) compared to the cost of the two-layer (aluminium foil and plastic) packaging material which is more commonly used for tablets and capsules in the PRC makes it more costly and less appealing for counterfeiting. The Group has so far not been materially affected by counterfeit products in the PRC or any other market in which it currently sells its products.

On 29 May 2007, the Group received a letter (the "Letter") from a firm of PRC lawyers acting on behalf of an individual who claims to be the holder of the  trade mark registered under Class 5 in the PRC on 21 February 2007. The Letter alleges that the Group has used the trade mark registered by such individual on certain of its products and that such use is unauthorised and constitutes an infringement. The Letter further threatens legal action against the Group unless, among other things, it ceases to use such trade mark on products falling within Class 5. The Group is not aware that any legal proceedings have been commenced in relation to any of the matters referred to in the Letter.

The Group, through The United Laboratories, Limited, currently holds the registration of the  trade mark under Class 5 and Class 30 in the PRC. Such registrations were both first obtained in 1993 and currently have an effective term until 2013. On the basis that the Group has registered the  trade mark under Class 5 in the PRC on an earlier date than the registration of the trade

mark referred to in the Letter, the PRC legal advisers to the Company have advised that: (a) the registration of the trade mark held by the Group is legal and valid and takes precedence over, and hence, the Group has the right under PRC law to apply for the revocation of, the registration of the trade mark referred to in the Letter; and (b) the Group has the exclusive right to use the trade mark it has registered under Class 5 in the PRC during the effective term of its registration; (c) the allegations and claims contained in the Letter that the Group does not have the right to use the trade mark that it has registered are unsubstantiated; and (d) any action by the alleged holder of the trade mark referred to in the Letter to require the Group to cease using the trade mark that it has registered in connection with any products covered by such registration will not be upheld by the PRC courts or trade mark registration authority. On such basis, the Directors intend to take such action as may be necessary to contest those claims and allegations, including applying for the revocation of the registration of the trade mark referred to in the Letter.

The Group has not infringed or, save as disclosed above, been subject to claims for infringement of, any patents and/or other intellectual property rights belonging to any third party.

PROPERTIES

As at 31 March 2007, the Group owned two properties in Hong Kong with an aggregate gross floor area of approximately 14,851.42 sq.m. which were used for production, ancillary office and residential purposes.

As at 31 March 2007, the Group held the land use rights to 12 parcels of land with an aggregate site area of approximately 707,843 sq.m. and various buildings and units in the PRC with a total gross floor area of approximately 213,430 sq.m., which were used for production, administrative offices and residential accommodation.

Of the 12 parcels of land and the various buildings and units in the PRC referred to above, the Group has not obtained the land use rights certificate to a parcel of land with a site area of approximately 75,157.87 sq.m. at its production plant in Chengdu and the building ownership certificates in respect of some buildings located at its production plant in Kaiping and Chengdu with a total gross floor area of approximately 4,217 sq.m. (the "Relevant Properties"). The parcel of land comprised in the Relevant Properties is used for power generation facilities and is not crucial to the operation of the Group.

Of the total gross floor area of approximately 4,217 sq.m. of the Relevant Properties, approximately 1,927 sq.m. is used for staff accommodation and the remaining area of approximately 2,290 sq.m. is used for ancillary facilities (such as power supply and warehouse), accounting for approximately 0.9% and 1.1%, respectively of the total gross floor area of all of the Group's properties located in the PRC. The Relevant Properties used for staff accommodation and ancillary facilities are easily replaceable.

The Group purchased the land on which its Kaiping production plant is located and certain buildings thereon from an Independent Third Party and the Group has since constructed other buildings on such land (the land together with those buildings being referred to as the "Kaiping Properties"). Those buildings, together, have a total gross floor area of approximately 2,582.42 sq.m.. As at the Latest Practicable Date, the Group has not been able to contact the seller to obtain the legal documents relating to the Kaiping Properties and hence, is currently unable to apply for the land use right certificate or the building ownership certificate(s) in relation to the Kaiping Properties.

The Group intends to continue to contact the seller of the Kaiping Properties to obtain the missing legal documents to enable it to apply for the relevant land use right certificate(s) and/or building ownership certificate(s). As advised by the PRC legal advisers to the Company, under PRC law, the Group may be ordered to demolish the Kaiping Properties or to vacate therefrom if land use right certificate(s) and/or building ownership certificate(s) are not obtained. The Group may also be subject to fines for its use of the Kaiping Properties. The Directors do not consider that the Kaiping Properties are crucial to the Group's operations as (i) those properties only have a gross floor area of 2,582.42 sq.m. and (ii) they are only used for ancillary facilities such as staff accommodation, staff canteen, boiler room and repair room.

The Group has been occupying and using the Relevant Properties since they were acquired or constructed by the Group. The Relevant Properties (other than the Kaiping Properties) are all located on land the use of which has been legally acquired by the Group and the Group has entered into land use right contracts or other agreements with the relevant governmental authorities in relation to the use of such land. The Group has obtained all approvals, licences and permits (including construction permits) relating to occupation and use of the Relevant Properties (other than the Kaiping Properties and Chengdu relevant property with a gross floor area of approximately 1,634.97 sq.m.). The PRC legal advisers to the Company have confirmed, on the basis of the Law on the Administration of the Urban Real Estate (《城市房地產管理法》), that the use of the Relevant Properties (other than the Kaiping Properties and Chengdu relevant property with a gross floor area of approximately 1,634.97 sq.m.) by the Group is legal and valid in the PRC.

The Group is in the process of applying for land use right certificates and building ownership certificates in relation to all land or buildings in the PRC owned and occupied by the Group but in respect of which the Group does not yet hold such certificates. The PRC legal advisers to the Company have confirmed that they do not envisage any major legal obstacles for the Group to obtain such certificates except for the Kaiping Properties. The Choy Family has undertaken to indemnify the Group in respect of any losses or damages it may suffer as a result of the Group not having such land use or building ownership certificates relating to the Relevant Properties.

INSURANCE

The Group maintains insurance policies to provide cover for damage to the Group's production facilities, fixed assets and inventory by accident. In accordance with the requirements of PRC law, the Group provides its employees with social insurance cover for retirement benefits, medical expenses, industrial injury and unemployment.

The Group does not have any insurance cover for product liability, as such coverage is not legally required in the PRC. The Directors believe the Group is able to manage its product liability risks through its quality control measures. The Group had not been subject to any product liability claim over the Track Record Period. The Directors believe the insurance coverage currently taken out by the Group is comparable to other pharmaceutical manufacturers in the PRC whose business operations and size are similar to the Group's. The Directors believe that the Group's current insurance coverage is adequate in view of its present operations.

ENVIRONMENTAL ISSUES

The main pollutants generated during the Group's production process include waste water, exhaust fumes and industrial waste. The Group has established waste water treatment facilities at both its production plants in Zhuhai and Chengdu where the production of bulk medicine and intermediate products respectively generates a significant amount of waste water which has to be treated before discharge. The Group has installed desulphurisation and dust treatment facilities at both those production plants to ensure that sulphur and dust discharged in exhaust fumes are properly treated and the exhaust fumes meet with applicable environmental standards. The production of bulk medicine at the Group's plant in Zhuhai also generates industrial waste which is disposed of by a third party specialist engaged by the Group. The Group closely monitors the performance of its environmental facilities to ensure compliance with national and local regulatory standards. The Group has a number of employees who are primarily responsible for ensuring the proper operation of its environmental facilities.

The principal environmental laws and regulations to which the Group is subject to in the PRC include the Environmental Protection Law of the PRC (環境保護法), the Law of the PRC on Evaluation of Environmental Impact (環境影響評價法), the Prevention and Treatment of Air Pollution Law (2000 Revised) (大氣污染防治法(2000修訂版)), the Prevention of Environmental Noise Pollution Law (環境噪聲污染防治法) and the Prevention of Water Pollution Law (1996 Amendment) (水污染防治法(1996修訂版)). Although there has not been any change in the relevant PRC laws and regulations or any newly imposed environmental requirements, the Directors have noticed that since 2007, relevant governmental departments in the PRC have increased their level of monitoring over pharmaceutical manufacturing enterprises, especially in the area of sewage disposal. The Group's Chengdu plant, in order to ensure compliance with certain sewage disposal requirements under tighter monitoring, has, since 2007, imposed appropriate control over its production volume, as well as increased their sewage disposal capacity, with a view to ensuring that environmental standards are met.

The PRC legal advisers to the Company have opined that the Group is in compliance with all relevant national or local environmental laws and regulations in the PRC and has obtained all permits, approvals and certifications required under PRC law in relation to its environmental facilities, including the discharge of waste water. The Group has obtained pollutant discharge permits (排放污染物許可證) which are required to undertake the treatment of pollutants at its production plants in the PRC. The Group's environmental facilities in the PRC are subject to regular inspection by environmental regulatory bodies. If these facilities are found not to be in compliance with the applicable environmental standards, the Group may be subject to penalties which may range from fines to suspension of production. The Directors have confirmed that the Group's operations at its production plant in Hong Kong are in compliance with the applicable environmental laws and regulations in Hong Kong. The Group has not been subject to any penalty or claim by any governmental or regulatory authorities in the PRC or Hong Kong for any material breach of or non-compliance with any environmental laws or regulations.

The Group intends to continue improving its environmental facilities and production technology to lower the level of pollutants generated in its production process. The enzyme catalysis method (酶法) used by the Group in the production of 7-ACA at its Chengdu plant is a technology which reduces the level of emission of certain pollution substances, as compared to the production process for 7-ACA which the Directors believe is commonly used by other manufacturers in the PRC. When the Group expands its production facilities in future, it will take all necessary steps to ensure compliance with applicable environmental standards and will, if necessary, seek professional advice to assist the Group with such compliance.

In the three years ended 31 December 2004, 2005 and 2006, the Group's total expenditure on compliance with environmental requirements amounted to RMB1,850,000 (equivalent to approximately HK$1,877,829), RMB12,458,000 (equivalent to approximately HK$12,645,405) and RMB14,332,099 (equivalent to approximately HK$14,547,696), respectively, representing approximately 0.2%, 0.7% and 0.7% of the Group's total annual turnover in each of these years, respectively.

NON-COMPETITION UNDERTAKINGS OF THE EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR

Each of the executive Directors and the non-executive Director has severally unconditionally and irrevocably undertaken to the Company (for itself and on behalf of its subsidiaries) that, among other things, (i) he or she will not and will procure that his or her associates will not, except in or through the Company or its subsidiaries, whether on his or her own or together with any third party, or as principal, agent, partner, director, employee or consultant and whether undertaken directly or through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, participate, engage or invest or be interested or otherwise involved in, directly or indirectly, any business that is similar to or in competition with or is likely to be in competition with any business, from time to time carried on by the Group or in which any member of the Group is engaged or has invested or is otherwise involved at any location at which such business is carried on (the "Business"); (ii) he or she shall, and shall procure that his or her associates shall, refer to the Group any business offered to him or her or his or her associates (as the case may be) which falls within the scope of the Business; and (iii) he or she shall, and shall procure that his or her associates shall not entice away from the Group, its customers, suppliers or employees (the "Non-competition Undertaking").

With respect to each of the executive Directors other than Mr Choy, the Non-competition Undertaking given by him or her will remain effective for so long as he or she shall remain an executive director of the Company and for a period of one year after the date on which he or she ceases to be in such office. With respect to each of Mr Choy and Ms Choy, the Non-competition Undertaking given by him or her will remain effective for so long as (i) he or she, whether on his or her own or together with his or her associates and/or any person(s) acting in concert (as defined in the Takeovers Code) with him or her, shall remain beneficially interested, directly or indirectly, in Shares carrying 30% or more of the voting rights of the Company and for a period of one year after he or she (whether on his or her own or together with his or her associates and/or person(s) acting in concert with him or her) ceases to be so interested; or (ii) shall remain an executive Director or a non-executive Director (as the case may be) of the Company and for a period of one year after the date in which he or she ceases to be in such office, whichever is later.

The independent non-executive Directors will, on an annual basis, review compliance of the Non-competition Undertaking by the executive Directors (namely, Mr Choy, Ms Peng and Mr Leung) and the non-executive Director, Ms Choy. Mr Choy, Ms Peng, Mr Leung and Ms Choy (together, the "Relevant Directors") have undertaken to provide all information to the independent non-executive Directors to enable them to undertake such annual review or to enforce the Non-competition Undertakings. The independent non-executive Directors will also review any options, pre-emptive rights or first right of refusal that may be provided by the Relevant Directors to the Group with respect to any competing business on an annual basis. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the

compliance and enforcement (if any) of the Non-competition Undertakings given by the Relevant Directors in its annual report. In addition, each of the Relevant Directors will, at the end of each year, provide a written confirmation as to whether he or her has complied with the terms of the Non-competition Undertaking during such year and such confirmation will be disclosed in the corporate governance report to be contained in the annual report of the Company.

As at the Latest Practicable Date, none of the Directors or any member of the Choy Family (including Mr Choy) carried on, was engaged or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which is discloseable under Rule 8.10 of the Listing Rules.

Independence from the Choy Family

The Directors believe that the Group is capable of carrying on its business independently of the Choy Family after the Listing for the following reasons:

- there is no competing business between the Group and any member of the Choy Family;

- there is no connected transaction between any member of the Choy Family or his or her associates and any member of the Group; and

- all of the guarantees previously provided by Mr Choy and Mrs Choy (both of whom are members of the Choy Family) in respect of bank borrowings of the Group and all outstanding amounts owing by the Group to Mr Choy will be released or discharged before the Listing.

The Company has also obtained a non-competition undertaking from Mr Choy. Please refer to the paragraph headed "Non-competition undertakings of the executive Directors and non-executive Director" under this "Business" section of the prospectus above for further details relating to such undertakings.

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. Mr Choy has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

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. Ms Peng has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

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 Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom. Mr Leung had previously worked for an international accounting firm and had also held the position of accounting manager in a subsidiary of Chinney Investment Ltd., a company whose shares are listed on the Main Board of the Stock Exchange. Mr Leung has over 15 years' experience in accounting, finance management and business administration. Mr Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group. Mr Leung has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

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 the following subsidiaries of the Company: United Laboratories (BVI) Holding, United Laboratories (BVI) Group, United Laboratories Hong Kong, Bowden Trading, Bear World, Team Profit Management, Team Crown, Lynbond and Kingly Capsule. She is the daughter of Mr Choy Kam Lok, an executive Director and the Chairman of the Company. Having considered Ms Choy's family obligations, the Company is of the view that it is appropriate for Ms Choy to hold the position of non-executive Director such that she would be able to maintain involvement in the overall management of the Group while fulfilling her role with respect to her personal affairs. Ms Choy has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Independent non-executive Directors

Heng Kwoo Seng (邢詒春), aged 59, 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 listed public companies: Lee & Man Paper Manufacturing Limited, Lee & Man Holding Limited, China Fire Safety Enterprise Group Holdings Limited, Tack Fat Group International Limited, Soundwill Holdings Limited, SIM Technology Group Limited, Minth Group Limited and SCUD Group Limited. During the three years preceding the date of this prospectus, 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 REXCAPITAL Financial Holdings Limited and Matrix Holdings 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 (珠海市藥品監管局). Mr Huang has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

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. Mr Song has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

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

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 (中南大學商學院). Ms Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms Zou was employed as a teacher at the Hunan Medical Middle School (湖南省醫藥中等專業學校) from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group. She was responsible for the preparation for the establishment of United Laboratories Chengdu.

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 (吳守廷), 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.

COMPLIANCE ADVISER

The Company has appointed Goldbond Capital (Asia) Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company in the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchase;

(3) where the Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the Group's business activities, developments or results of operation deviate from any other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of the Company's Shares.

The term of the appointment will commence on the date of the Listing and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the full financial year commencing after the Listing.

QUALIFIED ACCOUNTANT

Mr Leung Wing Hon (梁永康) is the qualified accountant employed by the Company. Mr Leung's personal particulars are set out in the paragraph headed "Directors" above.

COMPANY SECRETARY

Mr Leung Wing Hon (梁永康) is the Company's Company Secretary. He is also an executive Director and the Qualified Accountant of the Company.

AUDIT COMMITTEE

The Company established an audit committee on 25 May 2007 with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 to the Listing Rules. The audit committee has three members comprising Mr Heng Kwoo Seng, Mr Huang Bao Guang and Mr Song Ming. The Chairman of the audit committee is Mr Heng Kwoo Seng.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company.

REMUNERATION COMMITTEE

The remuneration committee of the Company is mainly responsible for determining the salaries and compensation package of the Directors and senior management personnel. It has three members comprising Mr Heng Kwoo Seng, Mr Huang Bao Guang and Mr Song Ming.

STAFF

As at 31 December 2006, the Group had a total of 3,845 full-time employees. The following table shows a breakdown of those employees by geographical location and function as at 31 December 2006.

	PRC	Hong Kong
Management, administration, personnel and accounting	307	18
Sales and marketing	877	1
Production and others	2,321	44
Quality control	187	9
Research and development	79	2
Total	3,771	74

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in Appendix V to this prospectus.

Under the Shares Option Scheme, the eligible persons (including Directors and employees of the Company (whether full time or part time)) are entitled to participate in the Share Option Scheme at the discretion of the Board.

STAFF BENEFITS

The Group, in compliance with the laws and regulations of the PRC, participates in the retirement benefit schemes operated by the local government authorities with respect to its employees in the PRC. Pursuant to these schemes, the Group is required to make contributions on behalf of such employees in accordance with PRC laws and regulations.

DIRECTORS' REMUNERATION

The aggregate amount of salaries, housing allowances, other allowances and benefits in kind (other than contributions to the pension schemes) paid by the Group to the Directors during the three years ended 31 December 2004, 2005 and 2006 was approximately HK$1,913,000, HK$2,015,000 and HK$3,459,000, respectively. Approximately, HK$44,000, HK$51,000 and HK$101,000 were paid by the Group as contributions to the pension schemes for Directors in the three years ended 31 December 2004, 2005 and 2006, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 December 2004, 2005 and 2006, by the Company or any of its subsidiaries to the Directors.

The table below sets out details relating to the Company's share capital as at the Latest Practicable Date and immediately after the completion of the Share Offer:

Authorised share capital:		*(HK$)*
3,800,000,000	Shares	38,000,000

Issued and to be issued, fully paid or credited as fully paid:

1,000	Shares in issue at the date of this prospectus	10
899,999,000	Shares to be issued pursuant to the Capitalisation Issue	8,999,990
300,000,000	Shares to be issued pursuant to the Share Offer	3,000,000

Total:		
1,200,000,000	Shares	12,000,000

Notes:

1. Assumptions

The above table assumes that the Share Offer becomes unconditional, but does not take into account the Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme. It also does not take into account the Issuing Mandate or the Repurchase Mandate. Details of the Issuing Mandate and the Repurchase Mandate are contained in the paragraph headed "Further information about the Company – Written resolutions of the sole shareholder of the Company passed on 25 May 2007" in Appendix V to this prospectus.

2. Ranking

The Offer Shares will rank equally in all respects with all Shares currently in issue or to be issued as set out in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.

3. Share Option Scheme

The Company has conditionally adopted the Share Option Scheme, a summary of which is set out in the section headed "Share Option Scheme" in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer assuming the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Share Offer or pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Share Option Scheme, the following person will be entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of the Company:

Name	Approximate number of Shares held immediately after the Share Offer	Approximately percentage of shareholding immediately after the Share Offer
BVI Intermediate Company *(Note)*	900,000,000	75%

Note: The Choy Family Trust is interested in the entire issued share capital of BVI Holding Company, which is interested in the entire issued share capital of BVI Intermediate Company.

Save as disclosed herein, the Directors are not aware of any other person who will, immediately following completion of the Share Offer assuming the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Share Offer or pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Share Option Scheme, be entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of the Company.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

SELECTED COMBINED FINANCIAL AND OPERATING DATA

The Group's selected combined financial data set forth below has been extracted from the combined financial information of the Group as at 31 December 2004, 2005 and 2006, and for the years ended 31 December 2004, 2005 and 2006, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). As more fully described in Appendix I, the Financial Information was prepared in accordance with accounting principles generally accepted in Hong Kong and complies with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

Investors should read these selected combined financial data together with Appendix I to this prospectus and the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

	Year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Selected Income Statement data			
Turnover	1,200,104	1,720,442	2,080,479
Cost of sales	(801,556)	(1,120,682)	(1,344,180)
Gross profit	398,548	599,760	736,299
Other income	35,508	12,867	9,918
Selling and distribution costs	(125,300)	(261,167)	(284,093)
Administrative expenses	(93,952)	(104,938)	(122,956)
Other expenses	(14,726)	(15,356)	(37,791)
Finance costs	(18,684)	(47,353)	(85,485)
Share of results of an associate	(5,118)	(8,342)	(2,726)
Gain on disposal of an associate	–	–	8,612
Profit before taxation	176,276	175,471	221,778
Taxation	(26,917)	(42,526)	(47,940)
Profit for the year	149,359	132,945	173,838
Attributable to:			
Equity holders of the Company	132,111	116,566	173,838
Minority interests	17,248	16,379	–
	149,359	132,945	173,838
Earnings per share *(HK$)*	0.15	0.13	0.19
EBITDA[(1)]	282,235	337,703	501,260

Note:

(1) EBITDA refers to earnings, including share of profit from associates but before minority interests, interest expenses, income taxes, depreciation and amortisation. EBITDA is presented to enhance understanding of the Group's operating results. The calculation of EBITDA is not a measure of financial performance under generally accepted accounting principles, including HK GAAP. Items excluded from EBITDA are significant components in understanding and assessing financial performance. The Directors believe that investors and securities analysts will find EBITDA to be a useful measure for evaluating the Group's cash flows from operations, for comparing its operating performance with that of similar companies that have different capital structures and for evaluating the Group's capital expenditures and working capital requirements. EBITDA should not be considered in isolation or as an alternative to net profit for the period, cash flows from operating activities, investing activities or financing activities, or other data presented in the Group's financial statements as indicators of financial performance or liquidity. Because the calculation of EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, the EBITDA presented may not be comparable to other similarly titled measures of performance of other companies. For a reconciliation of net profit for the period to EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – EBITDA".

The following is an extract of the combined balance sheets as set out in Appendix I to this prospectus:

	At 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Non-current assets			
Property, plant and equipment	1,327,932	1,699,141	1,640,077
Prepaid lease payments	95,564	80,961	80,392
Deposits for acquisition of property, plant and machinery	23,902	24,247	7,454
Current assets			
Inventories	156,675	274,701	344,115
Trade and bills receivables, deposits and prepayments	402,801	631,642	798,387
Loan receivable	–	–	1,779
Amount due from a director	342,151	319,946	515,673
Bank balances and cash	106,399	149,041	99,226
Current liabilities			
Trade and bills payables and accrued charges	440,994	833,957	894,309
Borrowings	532,101	901,079	1,047,460
Non-current liabilities			
Loan from a director	111,291	166,301	160,100
Borrowings	373,284	251,569	252,129
Total non-current assets	1,466,959	1,819,269	1,734,587
Total current assets	1,019,949	1,511,964	1,977,633
Total current liabilities	1,010,099	1,771,834	1,972,526
Net current assets (liabilities)	9,850	(259,870)	5,107
Total non-current liabilities	501,412	434,392	428,099
Total assets less current liabilities	1,476,809	1,559,399	1,739,694
Total equity	975,397	1,125,007	1,311,595

	Year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Selected Cash Flow Statement data			
Net cash from operating activities	218,059	201,566	285,471
Net cash used in investing activities	(666,848)	(442,898)	(438,415)
Net cash from financing activities	316,060	278,577	96,463
Net (decrease) increase in cash and cash equivalents	(132,729)	37,245	(56,481)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group as at 31 December 2004, 2005 and 2006, and for the years ended 31 December 2004, 2005 and 2006, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information presented in this section has been extracted or derived from unaudited management accounts or other records. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in "Risk Factors", "Business" and elsewhere in this prospectus.

OVERVIEW

The Group is principally engaged in the manufacture and sale of generic antibiotics and the bulk medicine and intermediate products used to produce them. The Group also produces and sells smaller amounts of cough syrup, anti-allergy medicine and capsule casings.

The Group's business is expected to continue to be driven by the following:

PRC pharmaceutical industry's macro environment

In each of the three years ended 31 December 2004, 2005 and 2006, the Group derived 90.1%, 87.7% and 78.6%, respectively, of its total annual turnover from sales in the PRC. As a result, the Group's financial results have been and are expected to continue to be significantly impacted by the macro environment in the PRC pharmaceutical industry. Several factors affecting the development of the PRC pharmaceutical industry may trigger new growth opportunities for the Group in the future, including: (1) per capita total health expenditure in the PRC grew at a double digit CAGR of 12.8% from 2000 to 2004, according to information in China Statistical Extracts 2006 published by China Statistics Press; (2) in the Eleventh Five Year Plan, the PRC Government identified the reform and development of the pharmaceutical industry as one of its principal objectives, including the review of its price control policies and their effectiveness in controlling public health expenditures; and (3) at the fifth meeting of the Tenth National People's Congress, Premier Wen Jiabao stated that the PRC Government will focus on expanding the medical care coverage in rural areas and develop a community new urban health service system in cities.

On the other hand, like many other pharmaceutical companies in the PRC, the Group's financial results are also impacted by certain PRC Government regulations, particularly those governing which of its finished products are subject to government-mandated price controls. Such price control measures may adversely affect the Group's profits. However, many of the Group's finished products are listed in the Insurance Catalogue (including one of the Group's best selling products, amoxicillin capsules), enabling patients to seek partial reimbursement of their costs of purchasing such finished products from the State Basic Medical Insurance Scheme or the New Rural Cooperative Medical Scheme. For this reason, the Directors believe that medicine listed in the Insurance Catalogue are generally more in demand in the PRC than those which are not.

Price and quality competition

In recent years, the pharmaceutical industry in the PRC has been characterised by intense price and quality competition. Although some of the Group's products are sold at prices lower than allowed under individual pricing approval from the PRC Government (which is higher than the prevailing governmental price ceilings), the Directors believe that the Group has built up strong market recognition of its brand name in the PRC primarily on the basis of the quality of its products and customer service.

Sales of finished products to distributors, not end-users

The Group sells its finished products to distributors, not end-users. Therefore, the Group makes its sales at the wholesale price, rather than the retail price. While the government-mandated retail price ceilings do not technically apply to the lower wholesale prices at which the Group sells its finished products to distributors, pharmaceutical manufactures, such as the Group, have ended up bearing a lot of the burden of the periodic reductions of these retail price ceilings, as retailers and distributors, by virtue of their control over sales and distribution channels, were able to pass on part of the effects of such retail price reductions to the manufacturers, resulting in further price pressure on the pharmaceutical manufacturers. According to "The Opinion on Further Regulating Market Pricing in the Drugs and Medical Services Market"《關於進一步整頓藥品和醫療服務市場價格秩序的意見》issued by the PRC Government on 19 May 2006, the PRC Government planned to, among other things, not only contain excessively high medicine prices but also elevate the price of some low priced products which are in demand in the market but which pharmaceutical manufacturers are reluctant to produce due to their low prices; and to control the prices charged by manufacturers for certain products. To prevent excessive profit-making, the PRC Government has already mandated that medical institutions (including hospitals) at county and higher levels may charge no more than 15% above the price at which they purchased such products. The PRC Government plans to increase investments in hospitals to encourage hospitals to cease relying on charging high margin on medicine as a major means of funding their operations. The Directors believe that these measures will help reduce the price pressure on manufacturers, from which the Group will also be able to benefit.

The Group's results of operations over the Track Record Period have been most significantly impacted by the following factors:

Government regulation of the PRC pharmaceutical industry has largely driven the Group's business over the Track Record Period. The Group has mitigated the impact of resultant declining average selling prices by manufacturing and selling a larger number of units of its products.

The most influential driver of the Group's results of operations over the Track Record Period was PRC Government regulation of the pharmaceutical industry, primarily retail price ceilings imposed (and modified from time to time) on (and individual pricing granted to) certain of the Group's finished products. On one hand, these price controls have had a direct downward impact on the selling prices (and profitability) of certain of the Group's finished products. But these periodic downward adjustments of price ceilings have had indirect impacts as well, as they may have "knock on" effects, starting in 2004, on selling prices of the bulk medicine and intermediate

products used to make certain finished products. Intense competition, notably price competition, among PRC pharmaceutical manufacturers limited the Group's ability to grow sales of its finished products over the Track Record Period.

In 2004, 2005 and 2006, the maximum retail ceiling prices of 22, nine and five of the Group's finished products that were in production in those years, respectively, were reduced by the PRC Government pursuant to notices issued by the NDRC in May 2004, September 2005 and August 2006, respectively. These reductions in retail ceiling prices, together with other factors such as market demand, led to decreases in average selling prices charged by the Group for those products by 24.1%, 44.5% and 12.1% in 2004, 2005 and 2006 respectively when compared with the respective previous years.

On the other hand, the Group's products granted individual pricing are legally allowed to be sold at a retail prices exceeding their prescribed retail ceiling prices, though in practice not all are sold at such higher prices due to price competition. As at 31 December 2006, 39 of the Group's 52 finished products in production in the PRC and all of the four finished products in production in Hong Kong (three of which were also in production in the PRC) were subject to government-mandated price controls. For the year ended 31 December 2006, 32.8% of the Group's total turnover was derived from sales of finished products subject to government-mandated price controls in the PRC and 20.8% of the Group's total turnover was derived from sales of five finished products in the PRC for which the Group had obtained approval for individual pricing. The retail price ceilings of certain of the Group's finished products were lowered three times during the Track Record Period on certain of these products (though on a different mix of products each time).

The average selling prices of the Group's antibiotics finished products have generally trended downward over the Track Record Period as a result. The average selling prices of the Group's bulk medicine have also generally trended downward over the Track Record Period, primarily due to market driven supply and demand factors and increasing price-based competition over the Track Record Period, including to a lesser extent in specific instances "knock on" effects on the market price of certain individual bulk medicine when prices on the specific finished product that a bulk medicine is used to produce are reduced. Over the Track Record Period, the Group has mitigated the impact of these declining average selling prices on its total turnover by, among other things, manufacturing and selling a larger number of units of these and other products. A detailed analysis is set below in the section headed "Price reductions, their impact on the Group's results and mitigating measures adopted" of this prospectus.

Consistent with the growth in the PRC market for pharmaceutical products, the Group increased its turnover derived from sales of finished products and, even more rapidly, its turnover derived from sales of lower margin surplus bulk medicine and intermediate products over the Track Record Period.

Over the Track Record Period, the PRC market for pharmaceutical products increased substantially. Consistent with that increase, the Group's turnover derived from sales of its finished products and, separately, bulk medicine and intermediate products increased over the Track Record Period. The Group's EBITDA also increased, from HK$282.2 million in 2004 to HK$337.7 million in 2005 to HK$501.2 million for 2006. The Group's net profit over the Track Record Period also grew from HK$149.4 million in 2004 to HK$173.8 million in 2006.

The increase in turnover from sales of bulk medicine over the Track Record Period was primarily due to increases in the Group's manufacturing capacity for bulk medicine over the Track Record Period, leading to production thereof in excess of that needed immediately for the manufacture of the Group's finished products. The Group therefore decided to sell surplus bulk medicine to other distributors and pharmaceutical manufacturers, turnover from which sales has become an additional source of revenue for the Group. Increases in turnover from sales of intermediate products in 2005 and 2006 have been driven by the start of production at the Group's Chengdu plant for sale to third party customers in 2005, which similarly resulted in the Group having a manufacturing capacity for intermediate products in excess of its current requirements for the manufacture of its own finished products. As with bulk medicine, turnover from these sales of surplus intermediate products has become another source of revenue for the Group.

As a result of the fact that turnover from sales of bulk medicine and from sales of intermediate products increased even more rapidly than did turnover from sales of finished products, starting in 2004 the Group derived an increasing majority of its total turnover from sales of bulk medicine and, starting in 2005, the combined sales of surplus bulk medicine and surplus intermediate products, from which the Group has realised lower segment results margins than on sales of its finished products. As a result, and also due to other factors, including pre-operating expenses, depreciation and interest expenses from the Chengdu plant, the Group's net profit margins decreased from 12.4% for the year ended 31 December 2004 to 7.8% for the year ended 31 December 2005 and increased slightly to 8.3% for the year ended 31 December 2006.

The following table shows a breakdown of the Group's turnover by product category and their respective segment results margins for each of the three years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December								
	2004			2005			2006		
	(HK$'000)	*%*	*Margin %*[(1)]	*(HK$'000)*	*%*	*Margin %*[(1)]	*(HK$'000)*	*%*	*Margin %*[(1)]
Intermediate products	0	0	–	53,903	3.1	(96.7)	197,373	9.5	12.9
Bulk medicine	639,897	53.3	13.4	896,447	52.1	9.3	1,077,294	51.8	5.9
Finished products and capsule casings	560,207	46.7	29.9	770,092	44.8	26.1	805,812	38.7	27.3
	1,200,104	100		1,720,442	100		2,080,479	100	

(1) "Margin" is the segment results margin, calculated by dividing the segment results for each of the three product categories by the external sales for each such product category for each specified period (each as disclosed in Note 5 to the Accountants' Report attached as Appendix 1 hereto).

For the years ended 31 December 2004, 2005 and 2006 , the Group's segment result margins on its bulk medicine was 13.4%, 9.3% and 5.9%, respectively. Its segment result margins on sales of finished products during those periods was 29.9%, 26.1% and 27.3% respectively. The Group's segment results margins on sales of intermediate products were -96.7% for the year ended 31 December 2005 and 12.9% for the year ended 31 December 2006.

Bulk medicine and intermediate products, which the Group sells to other pharmaceutical manufacturers rather than to individual retail consumers, are constituent chemical components used by the Group and other pharmaceutical manufacturers to make various finished pharmaceutical products. They each had considerably lower segment results margins than do the Group's finished products during the Track Record Period. The Directors believe that segment results margins for sales of bulk medicine have fallen considerably in each year during the Track Record Period due to market driven supply and demand factors and intensified price-based competition (in part due to an increasing number of manufacturers beginning to sell bulk medicine) resulting in lower selling prices, as well as, to a lesser extent, due to the resultant, "knock on" effects on the market prices of certain individual bulk medicine when price is reduced on the specific finished product that a bulk medicine is used to produce. Segment results margins on intermediate products increased in 2006, because production for sale to third party customers only commenced in 2005, while the Group incurred expenses prior thereto in connection with the construction of its Chengdu plant. The segment results margins for finished products have remained relatively stable over the Track Record Period (fluctuating within a fairly narrow range), despite intense competitive pressures in the industry as well as cuts in certain government-mandated price ceilings during this time.

Segment results for Chengdu plant showed turnaround with a positive segment result of HK$25.4 million for the year ended 31 December 2006.

Because the Group's Chengdu plant only began production for sale to third parties in 2005, for the two years ended 31 December 2004 and 2005, the segment results for the Group's Chengdu plant were losses of HK$51.5 million and HK$52.1 million, respectively, as the Group incurred expenses associated with establishing this new plant before commercial operations could begin (and therefore before revenues could be derived from the sale of intermediate products manufactured thereat). These segment result losses from the Group's Chengdu plant had a negative impact on the Group's profit before taxation in each of these years. For the year ended 31 December 2006, the segment results for the Group's Chengdu plant were HK$25.4 million. The segment losses in the two years ended 31 December 2004 and 2005 were primarily due to the fact that the Chengdu plant only commenced production for sale to third parties in 2005, and before that, it had undergone trial runs during the construction period in 2003, 2004 and the first half of 2005. During the trial run period, the Chengdu plant recorded losses which negatively impacted the overall financial performance of the Company. The Chengdu plant recorded a positive segment result in 2006. Intermediate products produced in the Chengdu plant such as 6-APA and, currently to a very limited extent, 7-ACA are basic raw materials for the production of antibiotics, which as basic medicine, are in higher demand under general prescriptions in the State Basic Medical Insurance Scheme and the New Rural Cooperative Medical Scheme.

The Group increased its sales outside the PRC over the Track Record Period, which sales are not subject to Government-mandated price controls in the PRC.

During the three years ended 31 December 2004, 2005 and 2006, the turnover that the Group derived from sales outside the PRC totalled HK$118.6 million, HK$212.3 million and HK$445.8 million, respectively, driven notably by increases in sales in other Asia regions, primarily driven by increasing sales in India (both to existing customers and new customers there). These sales represented 9.9%, 12.3% and 21.4%, respectively, of the Group's total annual turnover during these years. Over the Track Record Period, most of the Group's sales outside the PRC had been of bulk medicine, though the Group has begun to make limited (but increasing) sales of its intermediate products outside the PRC starting in 2005. The average selling prices of the Group's bulk medicine sold outside the PRC are generally higher than those inside the PRC and therefore the Group's profit margins on sales made outside the PRC are generally greater.

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

	Turnover by geographical market Year ended 31 December					
	2004		**2005**		**2006**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Mainland China	1,081,514	90.1	1,508,093	87.7	1,634,673	78.6
Hong Kong	45,750	3.8	44,986	2.6	37,013	1.8
Europe	22,335	1.9	61,617	3.6	90,138	4.3
India	3,277	0.3	17,935	1.0	110,928	5.3
Other Asia regions	39,948	3.3	74,665	4.3	162,486	7.8
Other regions	7,280	0.6	13,146	0.8	45,241	2.2
	1,200,104	100.0	1,720,442	100.0	2,080,479	100.0

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

The Group has adopted a strategy of expanding its sale of bulk medicine to overseas markets because, in the view of the Directors, the prices of bulk medicine in the PRC are still subject to fluctuations while the overseas market is more mature and hence prices are more stable. The Company, when deciding and selecting which overseas markets to expand into, will take into account factors such as market price and demand in those overseas markets.

Financial presentation

The Group's combined statements of income, cash flow and equity included elsewhere in this prospectus and the related financial information included in this section present the results of operations of the companies comprising the Group as if the current group structure had been in existence and remained unchanged throughout the period from 1 January 2004 through 31 December 2006 (or since the date of such companies' incorporation where this is a shorter period).

The Group's combined balance sheets as at 31 December 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at those dates. All significant transactions and balances between group enterprises are eliminated on combination.

Description of certain income statement items

Turnover

Over the Track Record Period the Group generated turnover from sales of: (i) intermediate products, (ii) bulk medicine, and (iii) finished products and capsule casings.

The Group generated 90.1%, 87.7%, and 78.6% of its total turnover from sales in the PRC during the years ended 31 December 2004, 2005 and 2006, respectively.

The following table shows a breakdown of the Group's turnover by product category for each of the three years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December					
	2004		**2005**		**2006**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Intermediate products	**0**	**0**	**53,903**	**3.1**	**197,373**	**9.5**
6-APA	–	0	53,903	3.1	186,696	9.0
7-ACA	–	0	–	0	10,677	0.5
Bulk medicine	**639,897**	**53.3**	**896,447**	**52.1**	**1,077,294**	**51.8**
Semi-synthetic penicillin type	311,310	25.9	405,830	23.6	593,991	28.6
Cephalosporins type	315,663	26.3	464,263	27.0	439,316	21.1
β-lactamase inhibitor type	12,924	1.1	26,354	1.5	43,987	2.1
Finished products and capsule casings	**560,207**	**46.7**	**770,092**	**44.8**	**805,812**	**38.7**
Semi-synthetic penicillin antibiotics	263,693	22.0	424,330	24.7	434,369	20.9
Ampicillin capsules (250mg)	97,543	8.1	163,704	9.5	166,390	8.0
Ampicillin capsules (500mg)	–	–	–	–	1,042	0.1
Amoxicillin capsules (250mg)	85,100	7.1	134,583	7.8	123,537	5.9
Amoxicillin capsules (500mg x 12 capsules)	3,740	0.4	3,991	0.2	3,022	0.2
Amoxicillin capsules (500mg x 24 capsules)	50,352	4.2	93,100	5.5	112,223	5.4
Amoxicillin granules	25,561	2.1	27,380	1.6	27,037	1.3
Amoxicillin tablets	57	0.0	–	–	–	–
Amoxicillin sodium for injection (0.5g)	1,340	0.1	1,572	0.2	545	0.0
Amoxicillin sublbactam pivoxyl tablets	–	–	–	–	573	0.0
Cephalosporins antibiotics	61,065	5.1	35,543	2.1	48,151	2.3
β-lactamase inhibitor antibiotics	116,002	9.7	153,299	8.9	154,535	7.4
Other finished products *(Note 1)*	101,455	9.4	138,331	8.0	152,111	7.3
Capsule casings	17,992	1.5	18,590	1.1	16,646	0.8
Total	**1,200,104**	**100**	**1,720,442**	**100**	**2,080,479**	**100**

Note:

1. Products under the category "Other finished products" include non-antibiotics finished products such as cough syrup, eye drops and anti-allergy medicine.

Cost of sales

During the years ended 31 December 2004, 2005 and 2006, cost of sales accounted for 66.8%, 65.1%, and 64.6% of the Group's total annual turnover.

The following table shows a breakdown of the Group's cost of sales by major expense category for each of the three years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December					
	2004		**2005**		**2006**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Raw materials purchases	662,288	82.6	946,121	84.4	916,908	68.2
Direct labour	24,597	3.1	35,457	3.2	54,735	4.1
Depreciation	70,974	8.9	97,632	8.7	153,268	11.4
Electricity and water	37,450	4.7	80,022	7.1	169,133	12.6
Consumables	7,628	1.0	54,423	4.9	85,911	6.4
Other	18,593	2.2	25,053	2.2	33,639	2.5
Changes in inventories balance	(19,974)	(2.5)	(118,026)	(10.5)	(69,414)	(5.2)
Total	**801,556**	**100**	**1,120,682**	**100**	**1,344,180**	**100**

Selling and distribution costs

Over the Track Record Period, the Group's selling and distribution costs primarily consisted of: (i) salaries, allowances and bonuses, (ii) exhibition and fair, (iii) advertising, (iv) travelling, (v) office expenses, (vi) transportation, (vii) staff training, and (viii) starting in 2005, cash discounts (a credit paid to customers on their next order when they pay their current-outstanding invoices earlier than required, or if they place larger sized orders).

Administrative expenses

Over the Track Record Period, the Group's administrative expenses primarily consisted of: (i) salaries, allowances and bonuses, (ii) depreciation, (iii) travelling, (iv) entertainment, (v) office expenses, and (vi) provision for bad and doubtful debts.

Critical accounting policies and practices

The discussion and analysis of the Group's financial condition and results of operations is based on the combined financial statements of the Group. The Group's significant accounting policies are set forth in Note 2 to the Group's combined financial statements. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Group's combined financial statements. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's combined financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined financial statements.

Revenue recognition

Revenue from sale of goods is recognised in the income statement when goods are sold and title has been passed.

Depreciation, amortisation and valuation of property, plant and equipment

Property, plant and equipment other than construction in progress are carried at cost less accumulated depreciation and accumulated impairment. The recorded value of property, plant and equipment is affected by certain management estimates, including estimated useful lives, residual values and impairment charges. The need for any impairment write-down is assessed by the Directors only if information indicates that any impairment might exist. Such information may include significant decrease in market value or significant deterioration of market conditions such that the carrying value of fixed assets may not be recovered through future cashflows. If different judgments or estimates had been used, material differences could have resulted in relation to the amount and timing of the impairment charge and the related depreciation and amortisation charges. The depreciation is charged annually based on the straight line method:

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

Inventories

Inventories reported in the balance sheets of the Group comprise raw materials, work-in-progress and finished goods which are stated at the lower of net realisable value or cost at the balance sheet date. Cost, calculated on a weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. The management of the Group carries out an inventory review on a product-by-product basis and will, where necessary, make provision for obsolete raw materials. The provisions will be recorded as expenses in the current period.

Trade and other receivables and provision for doubtful debts

The provision for doubtful debts is provided based on the evaluation of recoverability, aging analysis of accounts and the judgment of the Group's management on a case-by-case basis. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and subsequent collection. If the financial condition of the Group's customers is to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

EBITDA

EBITDA refers to earnings, including share of profit from associates but before minority interests, interest income, interest expenses, exchange differences, income taxes, depreciation and amortisation. EBITDA is presented to enhance understanding of the Group's operating results. The calculation of EBITDA is not a measure of financial performance under generally accepted accounting principles, including HK GAAP. Items excluded from EBITDA are significant components in understanding and assessing financial performance. The Directors believe that investors and securities analysts will find EBITDA to be a useful measure for evaluating the Group's cash flows from operations, for comparing its operating performance with that of similar companies that have different capital structures and for evaluating the Group's capital expenditures and working capital requirements. EBITDA should not be considered in isolation or as an alternative to net profit for the period, cash flows from operating activities, investing activities or financing activities, or other data presented in the Group's financial statements as indicators of financial performance or liquidity. Because the calculation of EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, the EBITDA presented may not be comparable to other similarly titled measures of performance of other companies.

The following table reconciles the Group's profit for the period to EBITDA and also shows cash flows from operating, investing and financing activities for the periods indicated:

	Year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000,000)	*(HK$'000,000)*	*(HK$'000,000)*
Net profit for the period	149.4	132.9	173.8
Add:			
Finance costs	18.7	47.4	85.5
Taxation	26.9	42.5	47.9
Depreciation	83.6	111.0	188.3
Amortisation	3.6	3.9	5.7
EBITDA	282.2	337.7	501.2
Net cash from operating activities	218.1	201.6	285.5
Net cash used in investing activities	(666.8)	(442.9)	(438.4)
Net cash from financing activities	316.1	278.6	96.5

RESULTS OF OPERATIONS

The following table shows the line items of the Group's income statements expressed as a percentage of turnover for the years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December		
	2004	**2005**	**2006**
	%	%	%
Selected Income Statement data			
Turnover	100.0	100.0	100.0
Cost of sales	(66.8)	(65.1)	(64.6)
Gross profit	33.2	34.9	35.4
Other income	3.0	0.7	0.5
Selling and distribution costs	(10.4)	(15.1)	(13.7)
Administrative expenses	(7.9)	(6.1)	(5.9)
Other expenses	(1.2)	(0.9)	(1.8)
Finance costs	(1.6)	(2.8)	(4.1)
Share of results of an associate	(0.4)	(0.5)	(0.1)
Gain on disposal of an associate	0	0	0.4
Profit before taxation	14.7	10.2	10.7
Taxation	(2.2)	(2.5)	(2.3)
Profit for the year	12.4	7.7	8.4

Year ended 31 December 2005 compared to year ended 31 December 2006

Turnover

From 2005 to 2006, the Group's total annual turnover increased by HK$360.1 million, or 20.9%, from HK$1,720.4 million to HK$2,080.5 million. This increase was due to an increase of: (i) HK$180.8 million, or 20.2%, in sales of bulk medicine in the year ended 31 December 2006, over the year ended 31 December 2005, (ii) HK$35.7 million, or 4.6%, in sales of finished products and capsule casings in the year ended 31 December 2006, over the year ended 31 December 2005, and (iii) HK$143.5 million, or 266.2%, in sales of intermediate products in the year ended 31 December 2006, over the year ended 31 December 2005.

Turnover from sales of bulk medicine increased by HK$180.8 million, or 20.2%, in 2006, almost exclusively because turnover from sales of bulk medicine outside the PRC during 2006, increased by HK$233.5 million over 2005 (a result of unit sales rising significantly), partially offset by a decrease of HK$52.7 million in turnover from sales of bulk medicine in the PRC (primarily due to drops in selling prices between these years). As a result, turnover from sales of bulk medicine in the PRC fell from 76.3% of the Group's total turnover from sales of bulk medicine in 2005 to 58.6% in 2006, while turnover from sales of bulk medicine outside the PRC increased from 23.7% of the Group's total turnover from sales of bulk medicine in 2005 to 41.4% in 2006.

Turnover from sales of finished products (including capsules) increased by HK$35.7 million, or 4.6%, in 2006, primarily because the Group increased unit sales of its antibiotics finished products, offsetting the impact on its total turnover of generally decreasing average selling prices on its antibiotics finished products between these years. Among its largest selling individual antibiotics finished products, the Group's turnover from sales of ampicillin 250 mg capsules increased by HK$2.7 million and its turnover from amoxicillin 500 mg (x24) capsules increased by HK$19.1 million between these years, which increases were partially offset by a decrease in turnover from amoxicillin 250 mg capsules by HK$11.0 million.

Sales of intermediate products increased by HK$143.5 million, or 266.2%, in 2006, because the Group's Chengdu plant, at which such intermediate products are produced, only began production for sale to third party customers in 2005, during which years it produced and sold externally almost exclusively 6-APA.

Cost of sales

The Group's cost of sales increased by HK$223.5 million, or 19.9%, from HK$1,120.7 million in 2005 to HK$1,344.2 million in 2006. This increase was due to an increase of: (i) HK$89.1 million in electricity and water charges (related to increased production volume), and (ii) HK$55.6 million in depreciation (related to the Chengdu plant). These increases were partially offset by a decrease of HK$29.2 million in raw materials purchases and by the fact that changes in inventory balance was HK$118.0 million during 2005 and was HK$69.4 million during 2006. As a percentage of total turnover, the Group's cost of sales decreased from 65.1% in 2005 to 64.6% in 2006.

Gross profit

As a result of increased total turnover, the Group's gross profit increased by HK$136.5 million, or 22.8%, from HK$599.8 million in 2005 to HK$736.3 million in 2006, and the Group's gross profit margin increased from 34.9% in 2005 to 35.4% in 2006.

Other income

The Group's other income decreased by HK$3.0 million, or 22.9%, from HK$12.9 million in 2005 to HK$9.9 million in 2006, primarily because income from raw materials sales was HK$7.2 million lower in 2006, partially offset by the fact that subsidy income was HK$4.1 million more in 2006 than in 2005, and because bank interest income was HK$1.4 million higher during 2006.

Selling and distribution costs

The Group's selling and distribution costs increased by HK$22.9 million, or 8.8%, from HK$261.2 million in 2005 to HK$284.1 million in 2006. This increase was primarily due to an increase of HK$19.9 million in cash discounts (credited to customers' next orders as an incentive to buy more and pay earlier).

Administrative expenses

The Group's administrative expenses increased by HK$18.1 million, or 17.3% from HK$104.9 million in 2005 to HK$123.0 million in 2006, an increase broadly in line with the 20.9% increase in total annual turnover between these years.

Other expenses

The Group's other expenses increased by HK$22.4 million, or 146.1%, from HK$15.4 million in 2005 to HK$37.8 million in 2006, primarily because of an increase during 2006 in IPO-related expenses of HK$15.4 million and an increase in research and development costs of HK$6.8 million.

Finance costs

The Group's finance costs increased by HK$38.1 million, or 80.5%, from HK$47.4 million in 2005 to HK$85.5 million in 2006, primarily because the Group capitalised HK$24.4 million during 2005 and did not capitalise any amounts during the period in 2006, and because interest on bank borrowings wholly repayable within five years increased by HK$10.8 million.

Share of results of an associate

The Group's share of results of an associate decreased by HK$5.6 million, or 67.3%, from HK$8.3 million in 2005 to HK$2.7 million in 2006.

Gain on disposal of an associate

The Group had a gain on disposal of an associate of HK$8.6 million in 2006, related to the reorganisation, and was nil in 2005.

Profit before taxation

Primarily because of increases in turnover from sales of bulk medicine and intermediate products, the Group's profit before taxation increased by HK$46.3 million, or 26.4%, from HK$175.5 million in 2005 to HK$221.8 million in 2006.

Taxation

The Group's taxation increased by HK$5.4 million, or 12.7%, from HK$42.5 million in 2005 to HK$47.9 million in 2006.

Profit for the year

Primarily because of increases in turnover from sales of bulk medicine and intermediate products, the Group's profit for the year ended 31 December 2006 increased by HK$40.9 million, or 30.8%, from HK$132.9 million in 2005 to HK$173.8 million in 2006. The Group's net profit margin increased from 7.7% in 2005 to 8.4% in 2006, primarily because of increased segment results margins on its intermediate products.

Minority interests

The Group's minority interests decreased from HK$16.4 million in 2005 to nil in 2006 because the Group's restructuring was completed in 2006. Profit for the year attributable to equity holders of the Company increased by HK$57.3 million in 2006, largely due to increased profit for the year but also due to a reduction in minority interest in 2006.

Year ended 31 December 2004 compared to year ended 31 December 2005

Turnover

From 2004 to 2005, the Group's total annual turnover increased by HK$520.3 million, or 43.4%, from HK$1,200.1 million to HK$1,720.4 million. This increase was due to an increase of HK$256.5 million, or 40.1%, in sales of bulk medicine in 2005 over 2004 and an increase of HK$209.9 million, or 37.5%, in sales of finished products in 2005 over 2004.

Sales of bulk medicine increased by 40.1% in 2005 because of increased production and unit sales, despite decreasing average selling prices for certain bulk medicine due to increasing price-based competition. This increase was further due to an increase in sales of bulk medicine outside the PRC between these years of HK$93.8 million (a result of unit sales rising significantly) and an increase of HK$162.8 million in sales of bulk medicine in the PRC (primarily due to a steep increase in the average selling price of certain cephalosporin bulk medicine between these years). As a result, while sales of bulk medicine outside the PRC increased from 18.5% of the Group's total sales of bulk medicine in the year ended 31 December 2004 to 23.7% in the year ended 31 December 2005.

Sales of antibiotics finished products increased by 37.5% in 2005 because of increased production and unit sales, despite decreasing average selling prices for certain antibiotics finished products due to increasing price-based competition.

Turnover from sales of intermediate products increased from nil in the year ended 31 December 2004 to HK$53.9 million in the year ended 31 December 2005 because the Group began production of intermediate products at its production plant in Chengdu for sale to third party customers in 2005.

Cost of sales

The Group's cost of sales increased by HK$319.1 million, or 39.8%, from HK$801.6 million in 2004 to HK$1,120.7 million in 2005. This increase was broadly in line with, but slightly lower than, the 43.4% increase in turnover in 2005, and was due primarily to economies of scale, as production volumes increased, and was primarily related to a HK$283.8 million increase in purchases of raw materials in 2005 over 2004 (due to increased production volumes in 2005). As a percentage of total turnover, the Group's cost of sales decreased from 66.8% in 2004 to 65.1% in 2005.

Gross profit

As a result of an increase in total turnover, the Group's gross profit increased by HK$201.3 million, or 50.5%, from HK$398.5 million in 2004 to HK$599.8 million 2005, and because turnover increased at a rate faster than did cost of sales (due in part to economies of scale as production volumes increased), the Group's gross profit margin increased from 33.2% in 2004 to 34.9% in 2005. The Group's gross profit margin increased by a small amount mainly because the Group derived an increasing percentage of its total turnover from its sale of surplus bulk medicine and intermediate products which had lower margins.

Other income

The Group's other income decreased by HK$22.6 million, or 63.7% from HK$35.5 million in 2004 to HK$12.9 million in 2005. This decrease was primarily due to the fact that the Group received management fees totalling HK$24.1 million in 2004 from two third party distributors for the provision to such third party distributors of sales-related technical consultancy services and information as well as guidance on the distributors' sales of imported and other pharmaceutical products by the Group utilising its own resources. The fees were calculated based on each of the Group's and the third party distributors' respective sales income. No such management fees were reflected in the Group's income statements in 2005, because: (i) the assets, liabilities and results of one of these two distributors, Zhuhai Wanbang, was consolidated into the Group's financial statements as of 1 January 2005 (which resulted in the management fee being eliminated in the Group's consolidated results), because the Choy Family acquired the entire equity interest therein and, thereby, control of it, and (ii) the other third party distributor ceased to be a distributor of the Group and hence no such management fee was paid to it by the Group.

Selling and distribution costs

The Group's selling and distribution costs increased by HK$135.9 million, or 108.4%, from HK$125.3 million in 2004 to HK$261.2 million in 2005, primarily because of increased marketing efforts made due to the intensely competitive nature of the industry and, to a lesser extent, because of the consolidation of the assets, liabilities and results of the distribution company mentioned above. The key components of this increase were: (i) a HK$26.6 million increase in travelling expenses, (ii) a HK$23.1 million increase in exhibition and fair expenses, (iii) a HK$17.5 million increase in cash discounts (from nil in 2004), (iv) a HK$17.3 million increase in office expenses, (v) a HK$10.6 million increase in staff training, (vi) a HK$8.1 million increase in transportation expenses, and (vii) a HK$7.1 million increase in entertainment expenses.

Administrative expenses

The Group's administrative expenses increased by HK$10.9 million, or 11.7%, from HK$94.0 million in 2004 to HK$104.9 million in 2005, primarily because increases in salaries, allowances and bonuses of HK$7.7 million and in China taxes of HK$5.7 million were partially offset by a decrease in provision for bad and doubtful debts of HK$1.8 million.

Other expenses

The Group's other expenses increased by HK$0.7 million, or 4.3%, from HK$14.7 million in 2004 to HK$15.4 million in 2005.

Finance costs

The Group's finance costs increased by HK$28.7 million, or 153.4%, from HK$18.7 million in 2004 to HK$47.4 million in 2005, primarily because interest on bank borrowings wholly repayable within five years increased in 2005 by HK$34.6 million as a result of higher interest paid on floating interest rate loans in 2005, due to higher prevailing interest rates generally in 2005, as well as the fact that outstanding borrowings were significantly greater in 2005 than in 2004.

Share of results of an associate

The Group's share of results of an associate increased by HK$3.2 million, or 63%, from HK$5.1 million in 2004 to HK$8.3 million in 2005.

Profit before taxation

Primarily because of increased selling and distribution costs and finance costs, the Group's profit before taxation decreased by HK$0.8 million, or 0.5%, from HK$176.3 million in 2004 to HK$175.5 million 2005.

Taxation

The Group's taxation increased by HK$15.6 million, or 58.0%, from HK$26.9 million in 2004 to HK$42.5 million in 2005. Taxation increased by 58.0%, while the Group's profit before taxation decreased by only 0.5%, because revenue from finished products increased at a higher rate than that for bulk medicine, and that the group company which produced finished products was subject to a higher tax rate than the group company that produced bulk medicine, in 2005.

Profit for the year

Primarily because of increased selling and distribution costs and finance costs, the Group's profit for the year decreased by HK$16.5 million, or 11.0%, from HK$149.4 million in 2004 to HK$132.9 million in 2005. The Group's net profit margin decreased from 12.4% in 2004 to 7.7% in 2005, primarily due to increased selling and distribution costs and finance costs, but also due to the fact that the Group derived an increasing amount of its total turnover from sales of surplus lower margin bulk medicine and a falling percentage from sales of higher margin finished products.

Minority interests

The Group's minority interests decreased by HK$0.8 million, from HK$17.2 million in 2004 to HK$16.4 million in 2005. The Group's profit for the year attributable to equity holders of the Company decreased by HK$15.5 million in 2005, primarily because of the decreased profit for the year.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operations, the issuance of new shares and debt financing from banks. The Group's principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditures.

Net current assets

As at 31 December 2006, the Group had net current assets of HK$5.1 million. The Group's current assets as at 31 December 2006, were mainly comprised of trade and bills receivables, deposits and prepayments of HK$798.4 million, amount due from a director of HK$515.7 million, and inventories of HK$344.1 million. As at 31 December 2006, the Group's current liabilities were mainly comprised of trade and bills payables and accrued charges of HK$894.3 million and borrowings of HK$1,047.5 million. As at 31 December 2005, the Group's net current liabilities were HK$259.9 million, in significant part because it financed capital expenditures in those years (which resulted in non-current assets) partly with short-term bank debt, particularly in connection with the construction of the Chengdu plant.

As at 30 April 2007, the Group had net current assets of HK$12.4 million.

Although the Group has historically been able to satisfy its working capital needs from cash flow from operations and debt financing from banks, its ability to expand its manufacturing facilities and sales network in the PRC may depend on its ability to finance these activities through the issuance of equity securities, long-term borrowings and the issuance of convertible and other debt securities.

Cash flows

	Year ended 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Selected Cash Flow Statement data			
Net cash from operating activities	218,059	201,566	285,471
Net cash used in investing activities	(666,848)	(442,898)	(438,415)
Net cash from financing activities	316,060	278,577	96,463
Net (decrease) increase in cash and cash equivalents	(132,729)	37,245	(56,481)

Net cash from operating activities

The Group's net cash from operating activities increased from HK$201.6 million for the year ended 31 December 2005 to HK$285.5 million for the year ended 31 December 2006. This change was principally due to the fact that the Group's increase in trade and bills receivables, deposits and

prepayments was HK$46.3 million for the year ended 31 December 2005 and was HK$130.7 million for the year ended 31 December 2006. Year-to-year changes in receivables (and, indeed, payables), while financially significant, represent merely changes, as of particular dates, that relate to particular billing and payment times by the Group that are tied to the completion of particular orders or delivery of particular materials by suppliers, as well as completion of particular delivery to customers. The Directors believe that these also represent an ongoing trend in the pharmaceutical industry in the PRC for customers to pay with bills rather than cash. This change was also due to the fact that the Group's increase in trade and bills payables and accrued charges was HK$88.5 million for the year ended 31 December 2005 and was HK$110.5 million for the year ended 31 December 2006, which was due to payment of construction cost for the Group's production plant in Chengdu, including machinery purchase costs, of HK$93.0 million.

The Group's net cash from operating activities decreased by HK$16.5 million for the year ended 31 December 2005, from HK$218.1 million for the year ended 31 December 2004 to HK$201.6 million for the year ended 31 December 2005. This increase was principally due to the fact that the Group's increase in trade and bills payables and accrued charges was HK$84.1 million for the year ended 31 December 2004 and HK$88.5 million for the year ended 31 December 2005, partially offset by the fact that interest paid was HK$34.5 million higher in 2005 (primarily because outstanding balances on borrowings, both short-term and long-term, were materially higher as at 31 December 2005 than as at 31 December 2004). The Group's trade and bills payables increased by 89.1% from HK$441.0 million as at 31 December 2004 to HK$834.0 million as at 31 December 2005.

Net cash used in investing activities

The Group's net cash used in investing activities was HK$442.9 million for the year ended 31 December 2005 and was HK$438.4 million for the year ended 31 December 2006. This decrease in 2006 was principally due to the fact that purchase of property, plant and equipment was HK$146.9 million for the year ended 31 December 2006 but was HK$396.2 million for the year ended 31 December 2005, partially offset by the fact that advance to a director was HK$184.5 million for the year ended 31 December 2006 and was nil for the year in 2005.

The Group's net cash used in investing activities decreased by HK$224 million for the year ended 31 December 2005, from HK$666.9 million for the year ended 31 December 2004 to HK$442.9 million for the year ended 31 December 2005. This decrease was principally due to the fact that purchases of property, plant and equipment were HK$112.1 million lower for 2005, than for 2004, and the fact that the Group received a government grant of HK$20.6 million for 2005 and nil in 2004.

Net cash from financing activities

The Group's net cash from financing activities decreased from HK$278.6 million for the year ended 31 December 2005 to net cash used in financing activities of HK$96.5 million for the year ended 31 December 2006. This decrease was principally due to the fact that repayment of borrowings was HK$376.9 million for the year ended 31 December 2005, and was HK$932.9 million for the year ended 31 December 2006, partially offset by the fact that new borrowings raised was HK$1,052.7 million for the year ended 31 December 2006 and was HK$608.5 million for the year ended 31 December 2005.

The Group's net cash from financing activities decreased by HK$37.5 million for the year ended 31 December 2005, from HK$316.1 million for the year ended 31 December 2004 to HK$278.6 million for the year ended 31 December 2005. This decrease was principally due to the fact that new borrowings raised were HK$202.1 million lower for 2005 than for 2004, partially offset by the fact that repayment of advance to a director was HK$46.0 million higher for 2005 than 2004 and by the fact that repayment of borrowings was HK$65.5 million lower for 2005 than for 2004.

Capital expenditures

Throughout the Track Record Period, the Group has made capital expenditures, typically in connection with the expansion of its manufacturing facility in Chengdu. These capital expenditures amounted to HK$739.8 million as at 31 December 2004, HK$493.2 million as at 31 December 2005, and HK$79.3 million as at 31 December 2006.

Capital commitments

Throughout the Track Record Period, the Group has made commitments to future capital expenditures, typically in connection with the construction of its new manufacturing facility in Chengdu. These commitments amounted to HK$292.3 million as at 31 December 2004, HK$23.6 million as at 31 December 2005, and HK$79.5 million as at 31 December 2006.

	At 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the financial information	292,297	23,636	79,455

Inventories

The Group's inventories increased from HK$274.7 million as at 31 December 2005 to HK$344.1 million as at 31 December 2006, primarily because of a HK$52.8 million increase in the value of work-in-progress. The Group's inventories increased from HK$156.7 million as at 31 December 2004 to HK$274.7 million as at 31 December 2005 primarily because: (i) finished goods inventories increased by HK$88.1 million over 2004, and (ii) raw materials inventories increased by HK$28.3 million. Subsequent usage/sale of inventories as at 31 December 2006 up to 30 April 2007 was HK$329.5 million, which accounted for 95.7% of inventories as at 31 December 2006.

The following table sets forth the turnover of the Group's inventories as of the dates indicated:

	As at 31 December		
	2004	**2005**	**2006**
Turnover of inventories (days)	71.3[(1)]	89.5[(1)]	93.4[(1)]

(1) Inventories is the value of inventories at the end of the respective years. Turnover of inventories (days) is calculated by dividing inventories at balance sheet date by cost of sale for the year and then multiplied by 365.

The increase in turnover days for inventories from 89.5 days as at 31 December 2005 to 93.4 days as at 31 December 2006 was due to the fact that the production of intermediate products increased dramatically in 2006 as compared to 2005. Inventory days were higher as at 31 December 2005 than as at 31 December 2004 because of the start of operations for sale to third party customers at the Chengdu plant in 2005, which required the Group to maintain higher levels of inventories.

Turnover of inventories increased over the Track Record Period primarily because of the start of production of intermediate products for sale to third party customers at the Chengdu factory in 2005, which: (i) required additional buffer stock to operate, which was not necessary to maintain before the commencement of its commercial operations (previously, the Group maintained inventories related only to bulk medicine and to finished products), and, (ii) increased the scope of the Group's overall production cycle (previously, only from bulk medicine to finished products, and, after 2005, from intermediate products to bulk medicine to finished products).

Trade and bills receivables, deposits and prepayments

The Group's total trade and bills receivables increased from HK$575.8 million as at 31 December 2005 to HK$751.4 million as at 31 December 2006, primarily because of an increase in trade receivables of HK$80.8 million and an increase in bills receivables of HK$94.8 million, each related to increasing sales during the year ended 31 December 2006 compared to the year ended 31 December 2005. The increase in bills receivables was also related to an increased use by customers of bills to pay the Group (which the Directors believe is consistent with a broader industry trend in the PRC) as well as an increase in bills receivables 91 to 120 days of HK$40.8 million. The Group's trade and bills receivables and prepayments increased from HK$402.8 million as at 31 December 2004 to HK$631.6 million as at 31 December 2005, primarily because of an increase in trade receivables between these dates of HK$122.1 million (further details on such increase are set out below under this same paragraph headed "Trade and bills receivables, deposits and prepayments") and an increase in bills receivables between these dates of HK$94.0 million. Increase in bills receivables were primarily due to increases in those outstanding 61 to 90 days of HK$38.6 million and those outstanding 121 to 180 days of HK$47.1 million. Subsequent settlement of the Group's total trade and bills receivables as at 31 December 2006 up to 30 April 2007 was HK$659.4 million, which accounted for 87.8% of the total trade and bills receivables as at 31 December 2006.

The Group grants customers credit periods ranging from 45 to 60 days for finished products, 30 to 120 days for bulk medicine and 0 to 90 days for intermediate products.

These increases over the Track Record Period were primarily due to: (i) increases in total turnover during the Track Record Period; (ii) a trend starting in 2004 for customers to pay with bills rather than in cash, and (iii) generally longer payment times by overseas customers (because their shipments must be consolidated before overseas delivery and then payment), which receivables became increasingly financially significant as overseas sales grew over the Track Record Period.

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

	At 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trade receivables			
0 to 30 days	107,168	142,759	211,875
31 to 60 days	29,062	91,077	98,002
61 to 90 days	11,083	21,543	25,394
91 to 120 days	5,800	5,939	2,022
121 to 180 days	2,784	12,402	21,083
Over 180 days	1,103	5,395	1,552
	157,000	279,115	359,928
Bills receivables			
0 to 30 days	50,360	40,340	82,688
31 to 60 days	70,889	78,045	92,691
61 to 90 days	35,080	73,667	79,761
91 to 120 days	19,314	24,760	65,621
121 to 180 days	26,998	74,050	70,204
Over 180 days	–	5,813	504
	202,641	296,675	391,469
Deposits, other receivables and prepayments	43,160	55,852	46,990
	402,801	631,642	798,387

There were increasing instances during the Track Record Period when certain companies were purchasing from and selling to the Group simultaneously. Thus, the relevant accounts receivables and payables could be set off against each other. The Directors confirm that most of the trade receivables within the range 121 to 180 days were of such nature. The Directors believe that the major reason for the increase of the trade receivables in this range at each of the year-ends during the Track Record Period was that such set-off was not processed until it was accumulated to a sizable amount.

Deposits, other receivables and prepayments consisted primarily, as at 31 December 2006, of VAT tax paid in advance to the PRC tax bureau, advances to suppliers and prepayment of development costs.

The trade receivables from the top five customers of the Group accounted for 29.0%, 14.0% and 17.3% of the total trade and bills receivables as at 31 December 2004, 2005 and 2006 respectively.

The following table sets forth the turnover of the Group's trade and bills receivables, deposits and prepayments as of the dates indicated:

	As at 31 December		
	2004	**2005**	**2006**
Turnover of trade and bills receivables (days)	109.4[(1)]	122.2[(1)]	131.8[(1)]
Turnover of trade receivables (days)	47.8[(2)]	59.2[(2)]	63.1[(2)]
Turnover of bills receivables (days)	61.6[(3)]	63.0[(3)]	68.7[(3)]

(1) Trade and bills receivables equal those values at the end of the respective years. Turnover of trade and bills receivables is calculated by dividing trade and bills receivables at balance sheet date by sale for the year and then multiplied by 365.

(2) Trade receivables equal those values at the end of the respective years. Turnover of trade receivables is calculated by dividing trade receivables at balance sheet date by sale for the year and then multiplied by 365.

(3) Bills receivables equal those values at the end of the respective years. Turnover of bills receivables is calculated by dividing bills receivables at balance sheet date by sale for the year and then multiplied by 365.

The increase in turnover days for trade and bills receivables from 122.2 days as at 31 December 2005 to 131.8 days as at 31 December 2006 was due to (i) generally longer payment times by overseas customers, as their shipments must be consolidated before overseas delivery and then payment, of which the receivables became increasingly financially significant as overseas sales grew over the Track Record Period, (ii) an increasing amount of turnover from sales of bulk medicine, sales of which to distributors or other pharmaceutical manufacturers the Group allows longer credit periods than on sales of finished products according to PRC pharmaceutical market practice, and (iii) increases in usage of bills for payment by customers.

The turnover days in finished products increased from 32 days in 2004 to 71 days in 2005. This increase was mainly due to the acquisition of all the rights and obligations attached to the equity interest of a distributor, namely Zhuhai Wanbang, in 2005. Accordingly, the trade receivables of this distributor as at 31 December 2005 was consolidated as debts of the Group, resulting in higher turnover days. The turnover days in domestic sales of intermediate products and bulk medicine decreased from 212 days in 2004 to 195 days in 2005. This decrease was mainly due to the acquisition of Zhuhai Lebang in 2004 which commenced sale of a new single product of bulk medicine in 2005. The Group required most of its customers purchasing such product (in particular its new customers) to make cash settlement. From 2004 to 2005, the increase in trade and bills receivables turnover days was mainly due to the increase in trade and bills receivables turnover days for sales of finished products and for overseas sales of bulk medicine, as manifested by the increase in attributable weighted turnover days from 15 days to 32 days and from 2 days to 6 days, respectively. This was partially offset by the decrease in turnover days of domestic sales of intermediate products and bulk medicine from 92 days in 2004 to 84 days in 2005.

Trade and bills payables and accrued charges

The Group's total trade and bills payables and accrued charges was HK$834.0 million as at 31 December 2005 and was HK$894.3 million as at 31 December 2006, primarily due to a HK$113.9 million increase in bills payables (reflecting the Group's increasing use of bills to pay

suppliers, again, the Directors believe, to be consistent with a broader trend in the industry in the PRC), as well as an increase of HK$39.9 million in trade payables (reflecting the Group's increasing payment to its suppliers nearer the end of their allowable credit periods, as a matter of the Group's policy and the Directors believe this is consistent with a broader trend in the industry in the PRC for customers to pay its suppliers later and later), partially offset by a HK$93.4 million decrease in other payables and accruals (related to the payment of plant and machineries related to the Chengdu plant, as construction thereon was completed in 2005).

Because of the same reasons as in 2006, the Group's trade and bills payable and accrued charge increased from HK$441.0 million as at 31 December 2004 to HK$834.0 million as at 31 December 2005 primarily as a result of an increase in bills payables of HK$143.3 million between those dates and an increase of HK$145.6 million in trade payables between those dates. In addition, the Group's investment in property, plant and equipment at the Chengdu plant also generated more other payables in 2005 than in 2004, which further increased the overall trade and bills payables for the year 2005.

The Group is granted credit periods ranging from zero to 120 days and has not experienced material disputes with suppliers during the Track Record Period regarding any overdue days. Turnover days for trade and bills payables were significantly longer than the average credit period granted by the Group's suppliers to the Group during the Track Record Period as it is the Group's policy to include normally six months for payment by way of bills of exchange as bills of exchange to suppliers are issued by a pledge of bills of exchange received from customers which are a few months away from maturity.

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

	At 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trade payables			
0 to 90 days	199,647	269,217	318,133
91 to 180 days	27,713	78,347	89,335
Over 180 days	13,278	38,670	18,666
	240,638	386,234	426,134
Bills payables			
0 to 90 days	68,822	124,246	183,839
91 to 180 days	21,391	104,974	163,508
Over 180 days	–	4,265	–
	90,213	233,485	347,347
Other payables and accruals	110,143	214,238	120,828
	440,994	833,957	894,309

Other payables and accruals consisted primarily, as at 31 December 2006, of accrual-purchase of machinery and advances from customers.

The following table sets forth the turnover of the Group's trade and bills payable and accrued charges as of the dates indicated:

	As at 31 December		
	2004	**2005**	**2006**
Turnover of trade and bills payable (days)	150.7[(1)]	201.8[(1)]	210.0[(1)]
Turnover of trade payable (days)	109.6[(2)]	125.8[(2)]	115.7[(2)]
Turnover of bills payable (days)	41.1[(3)]	76.0[(3)]	94.3[(3)]

(1) Trade and bills payable equal those values at the end of the respective years. Turnover of trade and bills payable is calculated by dividing trade and bills payable at balance sheet date by cost of sale for the year and then multiplied by 365.

(2) Trade payable equal those values at the end of the respective years. Turnover of trade payable is calculated by dividing trade payable at balance sheet date by cost of sale for the year and then multiplied by 365. The creditors' turnover day based on trade payables only (125.8 days) is greater than the credit period granted (120 days), because, according to the Directors, the Group purchased and received more raw materials for production in Chengdu plant approaching the end of 2005 as it planned to increase the production scale of the Chengdu plant in 2006 after the construction of the Chengdu plant was completed in 2005. This led to the increase in creditors balances at the end of 2005 which resulted in the increase in creditors' turnover days in 2005.

(3) Bills payable equal those values at the end of the respective years. Turnover of bills payable is calculated by dividing bills payable at balance sheet date by cost of sale for the year and then multiplied by 365.

The increase in turnover days for trade and bills payable from 201.8 days as at 31 December 2005 to 210 days as at 31 December 2006 was due to the fact that the Group began to pay suppliers increasingly with bills and also, to a lesser but significant extent, nearer the end of the credit periods they granted the Group in line with the changing industry practice over the Track Record Period (consistent with trends in the industry and because it is economically advantageous to the Group to do so).

The primary reason for the increase over the Track Record Period in turnover of the Group's trade and bills payable was due to the fact that the Group began to pay suppliers increasingly with bills and also, to a lesser but significant extent, nearer the end of the credit periods they granted the Group in line with the changing industry practice over the Track Record Period.

Market Risks

Interest Rate Risk

The Group is exposed to a degree of interest rate risk, because its outstanding Hong Kong dollar-denominated borrowings have floating interest rates. Additionally, much of its Renminbi-denominated borrowings are due in one year or less, and so must be refinanced annually if not repaid. The Group has also historically refinanced portions of its other outstanding short-term debt.

Foreign Currency Exchange Rate Risk

Over the Track Record Period the Group realised limited net foreign currency exchange gains. For the years ended 31 December 2004, 2005 and 2006, the Group recorded gains of HK$1.6 million, HK$1.9 million, and HK$1.0 million, respectively.

The Group is subject to limited foreign currency exchange risk because over the Track Record Period the Group's costs of sales and operating expenses have been primarily denominated in Renminbi, while the Group has made limited but increasing sales outside the PRC over the Track Record Period, which sales are denominated in US Dollars. The Group generated 9.9%, 12.3%, and 21.4% of its total annual turnover from sales outside the PRC during the years ended 31 December 2004, 2005 and 2006. Because of the relatively narrow range in which the Renminbi can trade against the US Dollar, however, this risk is currently limited.

Off-Balance Sheet Arrangements

The Group has no off balance sheet transactions.

PRICE REDUCTIONS, THEIR IMPACT ON THE GROUP'S RESULTS AND MITIGATING MEASURES ADOPTED

Introduction

During the Track Record Period, on three occasions the PRC Government reduced the prescribed retail ceiling prices of a wide range of products subject to government-mandated price controls. In May 2004, the retail ceiling prices of various anti-inflammatory products were reduced, including those of 22 of the Group's finished products which were reduced by between 16.0% and 55.1%. In September 2005, the PRC Government implemented another price reduction which affected nine of the Group's finished products. The prescribed retail ceiling prices of those nine products were reduced by between 20.1% and 64%. Eight of those products had also had their government-mandated retail price ceilings reduced in 2004. In August 2006, a third round of price reductions was implemented which affected the retail ceiling prices of five of the Group's finished products, which were reduced by between 17% and 53.8%. None of those products were affected by the price reduction implemented by the PRC Government in 2004 or 2005.

From time to time over the Track Record Period the Group took measures in response to these reductions of government-mandated retail price ceilings, including (i) adjusting its product mix; (ii) increasing marketing of selected finished products; (iii) selling increased quantities of certain of its products; (iv) increasing overseas sales; and (v) reducing costs as a percentage of total turnover.

During the Track Record Period, the Group's turnover increased by 43.4% from HK$1,200.1 million in 2004 to HK$1,720.4 million in 2005, and by 20.9% from HK$1,720.4 million in 2005 to HK$2,080.5 million in 2006, while its EBITDA increased by 19.7% from HK$282.2 million in 2004 to HK$337.7 million in 2005 and by 48.0% from HK$337.7 million in 2005 to HK$501.2 million in 2006. Over the Track Record Period, the Group's net profit increased by 16.4% from HK$149.4 million in 2004 to HK$173.8 million in 2006.

Details on the impact of price reductions on the Group's results, and the mitigating measures taken out by the Group against the three instances of price reductions, during the Track Record Period, are set out below, including detailed analyses on:

- changes in the total turnover that the Group derived from sales of its finished products that were subject to government-mandated price controls and whose prescribed retail ceiling prices were reduced over the Track Record Period;

- changes in the total turnover derived by the Group from sales of its respective bulk medicine that were used to produce those of its finished products whose retail ceiling prices were reduced in each of 2004, 2005 and 2006 (and hence a different mix of bulk medicine in each year due to the fact that different finished products had had their retail ceiling prices reduced in each year); and

- changes in the total turnover derived by the Group from sales of its intermediate products,

over the Track Record Period.

Analyses of price reductions

A list of the antibiotics finished products sold by the Group in 2004, 2005 and 2006 and whose retail ceiling prices were reduced by the PRC Government in May 2004, September 2005 and August 2006, respectively is set out below:

	Product	Dosage and packaging	Medicine type *(Note 1)*	Maximum retail price before reduction *(RMB)*	Maximum retail price after reduction *(RMB)*	Percentage of decrease
2004						
1.	Amoxicillin Sodium for Injection	0.5g	S	7.5	5.6	25.3%
2.	Amoxicillin Capsules	500mgx12	S	17.2 *(Note 2)*	13.8 *(Note 2)*	19.8%
		500mgx24		34.2 *(Note 2)*	27.4 *(Note 2)*	19.9%
3.	Amoxicillin Capsules	250mgx24	S	19.6 *(Note 2)*	15.7 *(Note 2)*	19.9%
4.	Amoxicillin Granules	125mgx12	S	12.8 *(Note 2)*	10.2 *(Note 2)*	20.3%
5.	Amoxicillin Tablets	125mgx12	S	6.8 *(Note 2)*	5.4 *(Note 2)*	20.6%
6.*	Cefuroxime Axetil Tablets	250mgx6	C	34.0	24.8	27.1%
		250mgx12		66.0	48.3	26.8%
7.*	Cefoperazone Sodium for Injection	1g	C	38.0	22.4	41.1%
8.*	Cefoperazone Sodium for Injection	2g	C	75.0	40.3	46.3%
9.*	Ceftriaxone Sodium for Injection	1g	C	40.0	20.0	50.0%
10.*	Ceftriaxone Sodium for Injection	2g	C	78.0	35.0	55.1%
11.	Cefotaxime Sodium for Injection	1g	C	17.0	10.0	41.2%
12.	Cefotaxime Sodium for Injection	2g	C	34.0	17.5	48.5%
13.*	Ceftazidime for Injection	1g	C	80.0	50.0	37.5%
14.	Amoxicilin and Clavulanate Potassium Tablets	0.457gx6	β	38.3	25.6	33.2%
		0.457gx12		72.48	50.0	31.0%
15.	Amoxicillin Sodium and Clavulanate Potassium for Injection	1.2g	β	48.0	38.0	20.8%
16.	Amoxicillin Sodium and Clavulanate Potassium for Injection	0.6g	β	25.0	21.0	16.0%
17.	Ampicillin Sodium and Sulbactam Sodium for Injection	0.75g	β	20.0	11.3	43.5%
18.	Ampicillin Sodium and Sulbactam Sodium for Injection	1.5g	β	39.0	20.3	47.9%
19.	Amoxicillin and Clavulanate Potassium Tablets	375mgx12	β	81.0	64.8	20.0%
		375mgx6		42.0	33.0	21.4%
20.*	Levofloxacin Hydrochloride Capsules	100mgx10	O	35.5	21.2	40.3%
21.*	Azithromycin Dispersible Tablets	250mgx6	O	57.0	46.0	19.3%
22.	Roxithromycin Capsules	150mgx12	O	35.5	23.6	33.5%

Note: "*" denotes products whose prescribed retail ceiling prices were reduced in both 2004 and 2005.

	Product	Dosage and packaging	Medicine type *(Note 1)*	Maximum retail price before reduction *(RMB)*	Maximum retail price after reduction *(RMB)*	Percentage of decrease
2005						
1.*	Cefuroxime Axetil Tablets	250mgx6	C	24.8	19.8	20.2%
		250mgx12		48.3	38.6	20.1%
2.*	Cefoperazone Sodium for Injection	1g	C	22.4	10.0	55.4%
3.*	Cefoperazone Sodium for Injection	2g	C	40.3	17.0	57.8%
4.*	Ceftriaxone Sodium for Injection	1g	C	20.0	10.0	50.0%
5.*	Ceftriaxone Sodium for Injection	2g	C	35.0	17.0	51.4%
6.*	Ceftazidime for Injection	1g	C	50.0	18.0	64.0%
7.	Cefoperazone Sodium and Sulbactam Sodium for Injection	2g	C	79.6	35.7	55.2%
8.*	Azithromycin Dispersible Tablets	250mgx6	O	46.0	27.3	40.7%
9.*	Levofloxacin Hydrochloride Capsules	100mgx10	O	21.2	13.0	38.7%
2006						
1.	Ampicillin Capsules	250mgx24	S	18.8 *(Note 2)*	15.6 *(Note 2)*	17.0%
2.	Cefazolin Sodium for Injection	1g	C	6.5	3.0	53.8%
3.	Tazobactam Sodium and Piperacillin Sodium for Injection	2g/250mg	β	82.8	59.7	27.9%
4.	Tazobactam Sodium and Piperacillin Sodium for Injection	4g/500mg	β	162.0	101.0	37.7%
5.	Aciclovir Tablets	100mgx24	O	14.2	8.8	38.0%

Notes:

1. "S" – Semi-synthetic penicillin type antibiotics
   "C" – Cephalosporins type antibiotics
   "β" – β-lactamase inhibitor type antibiotics
   "O" – Others (including both antibiotics and non-antibiotics)

2. The price shown is the maximum retail price at which the Group's product is allowed to be sold under the individual pricing approval granted for such product.

3. The PRC Government imposes control over only the maximum retail price at which price-controlled products may be sold and does not impose any control over the wholesale price at which pharmaceutical manufacturers may sell such products to distributors on a wholesale basis.

The following table sets out in relation to top five of the Group's finished products which were subject to government-mandated price controls and which together accounted for over 60% of its total annual turnover derived from sales of finished products in the year ended 31 December 2006, the percentage changes in the retail ceiling prices imposed by the PRC Government and average selling prices charged by the Group for those products over the Track Record Period:

		Percentage change in retail ceiling price imposed by the PRC Government (%)			Percentage change in average selling (wholesale) price charged by the Group (%)		
	Dosage and packaging	From 2003 to 2004	From 2004 to 2005	From 2005 to 2006	From 2003 to 2004	From 2004 to 2005	From 2005 to 2006
1. Amoxicillin capsules *(Note 2)*	0.25g x 24	(19.9%)	0.0%	0.0%	(17.5%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*
2. Amoxicillin capsules *(Note 2)*	0.5g x 12	(19.8%)	0.0%	0.0%	(11.8%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*
	0.5g x 24	(19.9%)	0.0%	0.0%	(18.5%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*
3a. Ampicillin capsules *(Note 3)*	0.25g x 24	0.0%	0.0%	(17.0%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*	(2.2%)
3b. Ampicillin capsules *(Note 4)*	0.25g x 24	0.0%	0.0%	(17.0%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*	1.3%
4. Amoxicillin Sodium and Clavulanate Potassium *(Note 4)*	0.6g x 10	(16.0%)	0.0%	0.0%	(16.5%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*
5. Tazobactam Sodium and Piperacillin Sodium for Injection *(Note 4)*	2g/250mg	0.0%	0.0%	(27.9%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*	(5.6%)

Notes:

1. The retail ceiling price prescribed by the PRC Government for this product was not reduced in such year and hence, comparison of the percentage change in its average wholesale price charged by the Group is not applicable.

2. Produced by the Group's production plants in both Hong Kong and Zhuhai.

3. Produced by the Group's production plant in Hong Kong.

4. Produced by the Group's production plant in Zhuhai.

The Group sells its finished products to distributors at wholesale prices. As indicated in the above table, the decrease in the average wholesale prices charged by the Group for most of its five major finished products were in many instances less (on a percentage basis) than the decrease in retail ceiling prices imposed by the PRC Government. This was mainly due to the fact that the financial impact of these reductions in retail prices was shared among the wholesalers, distributors and end-users.

The following table shows changes in (i) the turnover derived by the Group from sales of its finished products that were subject to government-mandated price controls and whose prescribed retail ceiling prices were reduced over the Track Record Period; (ii) the turnover of the Group's finished products that were subject to government-mandated price controls but whose prescribed retail ceiling prices were not reduced over the Track Record Period; (iii) the turnover of the Group's finished products that were not subject to government-mandated price controls; (iv) the turnover of all of the Group's finished products; and (v) the Group's total turnover derived from all sales, over the Track Record Period. Because the table below presents aggregate turnover figures by categories of the Group's products for the periods indicated, these total turnover figures are affected not just by any applicable price reductions, but also by the number of units sold, which varied in each period, for a variety of reasons.

	Year ended 31 December 2004		Year ended 31 December 2005		Year ended 31 December 2006	
	Total turnover *(HK$)*	% change in total turnover when compared to previous year	Total turnover *(HK$)*	% change in total turnover when compared to previous year	Total turnover *(HK$)*	% change in total turnover when compared to previous year
Finished products subject to government-mandated price controls whose prescribed retail ceiling prices were reduced by the PRC Government *(Note)*	297,294,848	(28.2%)	36,312,335	(31.1%)	256,459,211	6.5%
Finished products subject to government-mandated price controls whose prescribed retail ceiling prices were not reduced by the PRC Government *(Note)*	178,880,378	(22.9%)	623,566,023	46.7%	426,557,725	1.7%
Finished products that were not subject to government-mandated price controls *(Note)*	66,039,575	11.0%	91,623,688	43.2%	106,149,217	15.0%
All finished products	542,214,801	(23.3%)	751,502,046	38.7%	789,166,153	4.9%
Total turnover	1,200,104,000	(6.6%)	1,720,442,000	43.4%	2,080,479,000	20.9%

	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
Percentage borne by sales of finished products whose retail ceiling prices were reduced to total turnover	24.8%	2.1%	12.3%

Note: As different finished products were subject to government-mandated price controls and different price-controlled products had their retail prices reduced in each of 2004, 2005 and 2006, different finished products made up each of the above categories in 2004, 2005 and 2006.

Turnover from sales of finished products whose retail ceiling prices were reduced accounted for approximately 24.8%, 2.1% and 12.3% of the Group's total annual turnover in the three years ended 31 December 2004, 2005 and 2006, respectively.

For the year ended 31 December 2004, the Group's turnover derived from sales of all finished products decreased by 23.3% when compared to the year ended 31 December 2003, a smaller percentage decrease than that between these same years of its turnover derived from sales of finished products whose retail ceiling prices had been subject to price reductions, which decreased by 28.2%. The Directors believe that the smaller decrease in turnover derived from sales of all finished products collectively was due to the Group's efforts to mitigate the effects of these price reductions, including the introduction of new products and increased marketing of existing products whose government-mandated retail price ceilings were not reduced. For the year ended 31 December 2004, the Group's total annual turnover decreased by only 6.6% when compared to the year ended 31 December 2003, a much smaller percentage decrease than the decrease of 23.3% in the Group's turnover derived from sales of finished products alone between those two years, due to an increase in sales of bulk medicine, and related increase in turnover from sales of bulk medicine outside the PRC, neither of which are subject to government-mandated price controls. In the year ended 31 December 2004, the Group's operating activities generated net cash of HK$218.1 million against the backdrop of decreased overall turnover and turnover of finished products.

For the year ended 31 December 2005, the Group's turnover derived from sales of finished products increased by 38.7% when compared to the year ended 31 December 2004, even though turnover derived from sales of all finished products whose government-mandated retail ceiling prices were reduced decreased by 31.1% between these years. Between these two years, the Group's total annual turnover increased by 43.4%, a larger percentage increase than the 38.7% increase in the turnover from sales of finished products alone between these years. The increase in the turnover from sales of finished products was primarily attributable to increased production and unit sales of antibiotics finished products, including products whose prices had been reduced. It was also the result of the Group's implementation of certain measures intended to mitigate the impact of these price reductions imposed by the PRC Government. In the year ended 31 December 2005, the Group's operating activities generated net cash of HK$201.6 million, a decrease of 7.6% over the previous year. This was mainly due to the mitigating factors the Group adopted to counter the impacts of price cut which successfully drove up the overall revenue and resultantly, net cash from operating activities. However, during the same period, the Group's interest expense payment substantially increased over the previous year by 121.9%, partially offsetting the increase of net cash from operating activities.

For the year ended 31 December 2006, the Group's turnover derived from sales of its finished products whose government-mandated retail ceiling prices were reduced increased by 6.5% when compared to the year ended 31 December 2005 while the Group's turnover derived from sales of its finished products increased by 4.6% between these two years. Between these years, the Group's total annual turnover increased by 20.9%, a larger percentage increase than the 4.6% increase in the turnover from sales of finished products alone between these years. The increase in the turnover from sales of finished products was primarily due to increased unit sales. Three out of five of the products whose prices were reduced in 2006 were the Group's major products and it was the first time that their prices had been reduced by the PRC Government. The Group was able to supply itself internally with sufficient intermediate products to continue to manufacture its Ampicillin capsules, despite a supply shortage in the market generally in the PRC in 2006. In the year ended 31 December 2006, the Group's operating activities generated net cash of HK$285.5 million, an increase of 41.6% over the previous year against the backdrop of the increased overall turnover and turnover of finished products. This increase of net cash from operating activities was mainly due to the substantial increase of trade and bills receivables by 182.7% as a result of increased turnover, the substantial increase of trade and bills payables by 24.8%, and also the increase of interest expense payment by 17.2%.

The following table shows changes in the total turnover that the Group derived from sales of its finished products that were subject to government-mandated price controls and whose prescribed retail ceiling prices were reduced over the Track Record Period. Because the table below presents aggregate turnover figures by categories of the Group's products for the periods indicated, these total turnover figures are affected not just by any applicable price reductions, but also by the number of units sold, which varied in each period, for a variety of reasons.

	Year ended 31 December 2004		Year ended 31 December 2005		Year ended 31 December 2006	
	Total turnover *(HK$)*	% change in total turnover when compared to previous year	Total turnover *(HK$)*	% change in total turnover when compared to previous year	Total turnover *(HK$)*	% change in total turnover when compared to previous year
Finished products whose prescribed retail ceiling prices were reduced by the PRC Government in May 2004						
Semi-synthetic penicillin (5 products)	164,046,498	(38.4%)	258,639,268	57.7%	265,311,266	2.6%
Cephalosporins (8 products)	52,747,139	(17.4%)	28,480,189	(46.0%)	40,289,632	41.5%
β-lactamase inhibitor (6 products)	65,844,801	(7.5%)	76,533,491	16.2%	65,609,529	(14.3%)
Others (3 products)	14,656,411	14.8%	13,785,175	(5.9%)	11,788,035	(14.5%)
Total (22 products):	297,294,849	(28.2%)	377,438,123	27.0%	382,998,462	1.5%
Finished products whose prescribed retail ceiling prices were reduced by the PRC Government in September 2005						
Cephalosporins (7 products)	Not applicable	Not applicable	26,926,334	(35.5%)	37,160,415	38.0%
Others (2 products)	Not applicable	Not applicable	9,386,029	(14.2%)	7,552,892	(19.5%)
Total (9 products):	Not applicable	Not applicable	36,312,335	(31.1%)	44,713,307	23.1%
Finished products whose prescribed retail ceiling prices were reduced by the PRC Government in August 2006						
Semi-synthetic penicillin (1 product)	Not applicable	Not applicable	Not applicable	Not applicable	166,389,693	1.6%
Cephalosporins (1 product)	Not applicable	Not applicable	Not applicable	Not applicable	2,013,575	6.8%
B-lactamase inhibitor (2 products)	Not applicable	Not applicable	Not applicable	Not applicable	86,282,478	17.9%
Others (1 product)	Not applicable	Not applicable	Not applicable	Not applicable	1,773,465	(8.5%)
Total (5 products):	Not applicable	Not applicable	Not applicable	Not applicable	256,459,211	6.5%

For the year ended 31 December 2004, the total turnover that the Group derived from sales of its finished products whose prescribed retail ceiling prices were reduced in that year decreased by 28.2% when compared to the year ended 31 December 2003. Turnover from sales of finished products whose government-mandated ceiling prices were reduced in 2004 represented 24.8% of the Group's total turnover in that year. The Directors believe the decreases in total turnover of semi-synthetic penicillin, cephalosporins and β-lactamase inhibitor types antibiotics finished products were attributable to the reductions of these government-mandated retail price ceilings. The decreased total turnover from sales of cephalosporins type antibiotics finished products was further attributable, the Directors believe, to the Group shifting its marketing resources from cephalosporins to other finished products as a result of lowered profitability of cephalosporins (due both to the reduction of the government-mandated price ceilings and to price competition generally). Further, the Directors believe the decrease in total turnover derived from sales of β-lactamase inhibitor type finished products was also attributable to the fact that there was an increased number of producers of that type of finished products in 2004, leading to more intense price competition. The Directors believe the increase in total turnover derived from sales of other finished products was due to increased unit sales related to increased marketing by the Group for those other finished products whose retail ceiling prices were reduced. In 2005 and 2006, total turnover derived from sales of the Group's products whose retail ceiling prices were reduced in 2004 increased overall by 27.0% and by 1.5% respectively over each of the immediate previous years due primarily to increased unit sales.

For the year ended 31 December 2005, the total turnover that the Group derived from sales of its total nine finished products whose prescribed retail ceiling prices were reduced in that year decreased by 31.1% when compared to the year ended 31 December 2004. Turnover from sales of finished products whose government-mandated retail ceiling prices were reduced in 2005 represented 2.1% of the Group's total turnover in that year. Eight of these nine products had had their prices reduced in 2004. The Directors believe that these decreases were due to decreased unit sales of those products because of the Group's decreased marketing for such products (as they had become less profitable following these reductions of the government-mandated price ceilings). In 2006, total turnover derived from sales of the Group's products whose government-mandated retail ceiling prices were reduced in 2005 increased overall by 23.1% from 2005, due primarily to increased unit sales thereof.

For the year ended 31 December 2006, turnover from sales of finished products whose government-mandated retail ceiling prices were reduced in that year represented 12.3% of the Group's total turnover in that year and the total turnover that the Group derived from sales of products whose government-mandated retail ceiling prices were reduced in 2006 increased by 6.5% when compared to the year ended 31 December 2005. This was mainly because of increased unit sales due to the fact that (i) the Group continued its strong marketing efforts on the three out of five products whose prices were reduced for the first time; (ii) the Chengdu plant's supply of 6-APA further supported the growth of the Group's production and sales of semi-synthetic penicillin type antibiotics.

While price reductions by the PRC Government did impact the total turnover derived by the Group from sales of those products whose retail ceiling prices were reduced, the Directors believe that this effect may have been mitigated or otherwise affected by other factors, for example (i) potential increases in market demand for any such products due to the new, lower retail prices; (ii) the Group's counter-measures against such price reductions, such as increased marketing of such products; (iii) decreased marketing of such products by the Group, shifting its marketing efforts to other products, including but not limited to those of the Group's products whose retail ceiling prices were not reduced, but which are close substitutes for those which were.

The following tables show the changes in the total turnover derived by the Group from sales of its respective bulk medicine that were used to produce those of its finished products whose retail ceiling prices were reduced in each of 2004, 2005 and 2006 (and hence a different mix of bulk medicine in each year due to the fact that different finished products had had their retail ceiling prices reduced in each year), and changes in the total turnover derived by the Group from sales of its intermediate products, over the Track Record Period. Because the table below presents aggregate turnover figures by categories of the Group's products for the periods indicated, these total turnover figures are affected not just by any applicable price controls, but also by the number of units sold, which varied in each period:

	Year ended 31 December 2004		**Year ended 31 December 2005**		**Year ended 31 December 2006**	
	Total turnover *(HK$)*	**% change in total turnover of the bulk medicine used to produce the finished products subject to price reduction in 2004 when compared with total turnover of the same products in the year ended 31 December 2003**	**Total turnover** *(HK$)*	**% change in total turnover of the bulk medicine used to produce the finished products subject to price reduction in 2005 when compared with total turnover of the same products in the year ended 31 December 2004**	**Total turnover** *(HK$)*	**% change in total turnover of the bulk medicine used to produce the finished products subject to price reduction in 2006 when compared with total turnover of the same products in the year ended 31 December 2005**
Bulk medicine						
Semi-synthetic penicillin	202,549,533	(3.8%)	Not applicable *(Note 1)*	Not applicable *(Note 1)*	128,445,154	47.8%
Cephalosporins	297,282,281	31.2%	388,476,539	44.6%	3,688,346	972.2%
B-lactamase inhibitor	6,497,986	124.1%	0	0%	549,835	Not applicable *(Note 2)*
Total:	506,329,800	15.1%	388,476,539	44.6%	132,683,335	52.1%

Note 1: The PRC Government did not decrease the prices of semi-synthetic penicillin type antibiotics finished products of the Group in 2005.

Note 2: No percentage change figure is shown as the total turnover amount for the same group of products in the previous corresponding period is zero.

	Year ended 31 December 2004		Year ended 31 December 2005		Year ended 31 December 2006	
	Total turnover *(HK$)*	% change in total turnover when compared with total turnover of the same products in the year ended 31 December 2003	Total turnover *(HK$)*	% change in total turnover when compared with total turnover of the same products in the year ended 31 December 2004	Total turnover *(HK$)*	% change in total turnover when compared with total turnover of the same products in the year ended 31 December 2005
Intermediate products						
6-APA	0	0%	53,902,000	Not applicable *(Note 1)*	186,696,441	246.4%
7-ACA	0	0%	0	0%	10,676,458	Not applicable *(Note 1)*
Total:	0	0%	53,902,000	0%	197,372,899	266.2%

Note 1: No percentage change figure is shown as the total turnover amount for the same group of products in the previous corresponding period is zero.

Over the Track Record Period, an increasing amount of the Group's total turnover was derived from external sales of bulk medicine that are used (by the Group and other manufacturers) to produce antibiotics, including those of its finished products whose retail ceiling prices were reduced in each of 2004, 2005 and 2006. Turnover that the Group derived from sales of its intermediate products increased in 2005 and 2006, mainly due to the fact that the Group's Chengdu plant began commercial operations in 2005, and, to a lesser extent, increased demand of such products in China in 2006. The increase in yearly turnover of that the Group derived from sales of its bulk medicine and intermediate products was primarily due to market-driven supply and demand factors, including to a lesser extent, in occasional specific instances, "knock-on" effects on the market price of certain individual bulk medicine when price is reduced on the specific finished product that a bulk medicine is used to produce. The Directors believe that past reductions in the government-mandated retail price ceilings applicable to certain finished products have actually stimulated demand for those products and led to increased total unit sales of such finished products by the Group and also increased the demand for the bulk medicine and intermediate products required to produce those finished products. In these instances, such increased demand may have had a positive impact on the selling price and/or unit sales of those bulk medicine and intermediate products.

Mitigating measures against the three instances where government-mandated retail price ceilings were reduced during the Track Record Period

The measures taken by the Group over the Track Record Period to mitigate the negative effects of reductions in government-mandated retail price ceilings included:

(i) Adjustment to product mix

In selected instances during the Track Record Period, the Group modified its product mix to produce and sell an increasing proportion of those finished products whose PRC government-mandated retail ceiling prices had not been reduced. The Directors believe, as the Group has obtained Drug Registration Approvals in the PRC for a total of 89 finished products as at 31 December 2006, and that the Group's current production facilities can also produce those finished products for which the Group has obtained Drug Registration Approvals but which it is not currently producing, the Group is in a position to switch to such other products when faced with future reductions in government-mandated retail price ceilings. The percentage of the Group's total turnover derived from sales in the PRC of finished products subject to government-mandated price controls changed from 39.7% in 2004 to 38.4% in 2005 and further to 32.8% in 2006 as a result of adjustments made by the Group to its product mix as a measure against price reductions during the Track Record Period.

In 2004, the Group commenced the production and sale of nine finished products whose retail ceiling prices were not reduced by the PRC Government in that year in part as a mitigating measure against cuts in government-mandated retail price ceilings applicable to other of the Group's finished products. One new finished product was introduced in 2005 whose retail ceiling price was not affected by reductions in government-mandated retail price ceilings.

During the Track Record Period, the Group has also increased its sales of surplus bulk medicine and intermediate products which provided an additional source of revenue to the Group, though each of those product categories had lower segment results margins than did the Group's finished products in each year during the Track Record Period.

(ii) Increasing marketing efforts for selective finished products

During the Track Record Period, as a measure to mitigate the negative effects brought about by price reductions on other finished products, the Group increased the marketing of selected finished products whose retail ceiling prices were not reduced by the PRC Government. In 2004, the Group increased its marketing of some of its finished products whose retail ceiling prices were not affected by price reductions by the PRC Government in that year. As a result, the turnover that the Group derived from sales of some of such products each grew by more than 50% during the Track Record Period, as shown in the table below:

	Number of products	**Turnover in the previous year** *(HK$ million)*	**Turnover in that year** *(HK$ million)*	**Increase in turnover when compared to previous year** *(HK$ million)*
2004	5 products	N/A	66.7	N/A
2005	10 products	236.3	441.1	204.8
2006	12 products	17.1	34.6	17.5

(iii) Selling increased quantities of certain of its products

Another of the Group's measures to mitigate the negative impact on the Group's total turnover of reductions of government-mandated retail price ceilings was to increase unit sales of certain finished products in part through enhanced marketing thereof. During the Track Record Period, in selected instances the Group increased marketing of those products whose retail ceiling prices had been reduced by the PRC Government, and had successfully increased the sales volume of such products, mitigating the impact on the Group's total turnover as a result of the decreased retail ceiling prices. One successful example is the Group's cefuroxime axetil tablets. The retail ceiling price of this product was reduced in both 2004 and again in 2005, yet with the Group's increased marketing efforts, the Group increased unit sales thereof in each of 2004 and 2005, resulting in an increase in total turnover derived from sales of these products from 2003 to 2004 and again from 2004 to 2005.

(iv) Increasing overseas sales

During the Track Record Period, the Group increased sales of its products to overseas markets. The percentage of the Group's total turnover derived from overseas sales in the three years ended 31 December 2004, 2005 and 2006 were 9.9%, 12.3% and 21.4% respectively.

(v) Reducing costs as a percentage of total annual turnover

In part, as a measure to mitigate the negative impact to the Group's financial performance as a result of the periodic reductions in the price ceilings, over the Track Record Period, the Group has further managed its administrative expenses and cost of sales. As a result, the Group's administrative expenses as a percentage of total annual turnover fell from 7.8% in the year ended 31 December 2004 to 6.1% in the year ended 31 December 2005 to 5.9% in the year ended 31 December 2006, and its cost of sales as a percentage of total turnover also fell from 66.8% to 65.1% to 64.6% in each of those years, respectively.

INDEBTEDNESS

The total indebtedness of the Group is as follows:

Borrowings

	At 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Bank loans	899,315	1,075,551	1,112,152
Discounted bills	–	70,940	181,067
Other borrowings	6,070	6,157	6,370
	905,385	1,152,648	1,299,589
Analysed as:			
Secured	292,509	359,229	752,456
Unsecured	612,876	793,419	547,133
	905,385	1,152,648	1,299,589

The borrowings are repayable as follows:

	At 31 December		
	2004	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
On demand or within one year	532,101	901,079	1,047,460
More than one year, but not exceeding two years	175,297	111,045	240,626
More than two years, but not exceeding five years	197,438	140,524	11,503
Over five years	549	–	–
	905,385	1,152,648	1,299,589
Less: Amount due within one year shown under current liabilities	(532,101)	(901,079)	(1,047,460)
Amount due after one year	373,284	251,569	252,129

The ranges of average effective interest rates per annum of the borrowings at the respective balance sheet dates are as follows:

At 31 December 2004	1.20% – 5.63%
At 31 December 2005	2.80% – 6.72%
At 31 December 2006	5.02% – 7.06%

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

Denominated in	Interest rate	At 31 December 2004	2005	2006
		HK$'000	*HK$'000*	*HK$'000*
Renminbi	People's Bank of China lending rate	404,136	746,243	861,390
Hong Kong dollars	Hong Kong Interbank Offered Rate plus 1.0% to 2.5%	501,249	406,405	438,199
		905,385	1,152,648	1,299,589

Bank overdraft

	At 31 December 2004	2005	2006
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Bank overdraft	94	1,906	5,956

Trust receipt loans

	At 31 December 2004	2005	2006
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trust receipt loans	4,325	5,842	701

Loan from a director

	At 31 December 2004	2005	2006
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Loan from a director	111,291	166,301	160,100

As at 30 April 2007, the total indebtedness of the Group amounted to HK$1,344,947,000, of which bank loans, discounted bills, other borrowing, bank overdraft, trust receipt loans and loan from a director amounted to HK$935,857,000, HK$237,190,000, HK$6,499,000, HK$2,995,000, HK$517,000 and HK$161,889,000 respectively.

Except as disclosed herein, the Group did not have, at the close of business at April 30, 2007, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, contingent liabilities, guarantees, liabilities under acceptance, acceptance credits, purchase commitments, or other similar indebtedness.

The Directors confirm that there have been no material changes in the Group's indebtedness since 30 April 2007.

Loan advances to and from the Group

Amount due from a director

As at 31 December 2006, there was an amount due from a director of the Company, Mr Choy, of HK$515.7 million. The amount is unsecured, interest free and repayable on demand, of which approximately 1.2% was provided by two of the Group's PRC incorporated subsidiaries, Zhuhai Kangzhile and United Laboratories Zhuhai. The remaining 98.8% was provided by two other group companies, United Laboratories (BVI) Holding and United Laboratories (BVI) Group. This advance was not documented. The Directors confirmed that this advance was considered (but made without documented approval) as a temporary advance to Mr Choy for his personal use. No interest was charged on this amount as the registered scopes of business of the PRC incorporated subsidiaries of the Group which provided approximately 1.2% of this loan do not include the provision of loans and financial services. The amount provided by the PRC incorporated subsidiaries which is not interest bearing does not constitute a loan under PRC regulations. The remainder of the amount provided by one other group company is repayable on demand and hence bears no interest. This amount of HK$515.7 million advance made by the Group to Mr Choy was treated by Mr Choy as dividend payment made by the Group to Mr Choy to which he was entitled as the owner of the Group during the Track Record Period, despite the fact that amount had not been formally declared by the Group as dividends or reflected as dividend payment (and was instead stated as "loan" payment to Mr Choy) in the financial records of the Group during the Track Record Period. On this basis, Mr Choy confirmed that the amount formed part of his personal income and had been used by him for personal purposes. This amount has been fully settled.

According to the opinion of the PRC legal advisers to the Group, this non-interest bearing advance to Mr Choy is not in breach of relevant PRC rules and regulations. Those PRC companies which contributed to the advance are not allowed in their business scope to engage in financial businesses including lending. Therefore, if advances made by such companies were interest bearing then such companies may be considered to have illegally engaged in financial businesses. Pursuant to a Deed of Indemnity given by the Choy Family and BVI Intermediate Company (the "**Indemnifiers**") to the Company, the Indemnifiers have undertaken to indemnify the Group against any losses or damages suffered by the Group as a result of or in connection with such advance, and such advance having been made in breach of any applicable laws or regulations or the articles of association or business licence or business regulation of the entity or person making or receiving the advances.

Amount due to a director

As at 31 December 2006, there was an amount due to a director of the Company, Mr Choy, of HK$160.1 million by United Laboratories (BVI) Holding, a member of the Group. The loan is unsecured, bears interest at Hong Kong prime rate minus 0.625% per annum and has no fixed repayment term. This loan was made by Mr Choy to United Laboratories (BVI) Holding for the purpose of funding the construction of the Group's production plant in Hong Kong operated by United Laboratories Hong Kong (being an indirect wholly-owned subsidiary of United Laboratories (BVI) Holding). As it was made as a long term loan without fixed repayment term, United Laboratories (BVI) Holding agreed to pay interest at a fixed rate accrued on a monthly basis to Mr Choy. This amount has been settled by the Group.

Amount due from a supplier

As at 31 December 2006, there was an advance due from a supplier of the Group of HK$1.8 million. This advance was not documented. The Directors confirmed that it was considered by them (but made without documented approval) for the purpose of assisting this supplier with its technical improvements. This advance has been settled.

According to the opinion of the PRC legal advisers to the Group, the advance to a supplier is not in compliance with the PRC regulations in relation to lendings between entities. The maximum penalty for breach of such regulation is a fine of one to five times of any interest received from such loan. The Company confirmed that it had not in fact received any interest from the supplier pursuant to this loan. According to the opinion of the PRC legal advisers, the Group will not be subject to any fine penalties if no interest had ever been received by the Group. Pursuant to a Deed of Indemnity given by the Indemnifiers to the Company, the Indemnifiers shall indemnify the Group against any losses or damages suffered by the Group as a result of or in connection with such advance, and such advance having been made in breach of any applicable laws or regulations or the articles of association or business licence or business regulation of the entity or person making or receiving the advances.

Amount due from a former minority shareholder of a subsidiary

During the Track Record Period, there was an advance due from a now former minority shareholder of a subsidiary of the Group.

According to the opinion of the PRC legal advisers to the Group, an advance to a minority shareholder of a subsidiary is not in compliance with the PRC regulations in relation to lendings between entities. However, since the advance was not interest bearing, the Group will not be subject to any fine penalties. By way of such now former minority shareholder of a subsidiary of the Group becoming a member of the Group in January 2006, such balance ceased to be carried at the consolidated financial statement of the Group. Pursuant to a Deed of Indemnity given by the Indemnifiers to the Company, the Indemnifiers shall indemnify the Group against any losses or damages suffered by the Group as a result of or in connection with such advance, and such advance having been made in breach of any applicable laws or regulations or the articles of association or business licence or business regulation of the entity or person making or receiving the advances.

Amount due to Pengzhou Municipal Finance Bureau

During the Track Record Period, the Group received loan advances from the Pengzhou Municipal Finance Bureau (彭州市財政局). These advances were made pursuant to the three agreements entered into between Pengzhou Municipal Finance Bureau and United Laboratories Chengdu. An advance was made by the Pengzhou Municipal Finance Bureau to United Laboratories Chengdu for the purpose of funding the cost of construction of a transformer substation at its production plant in Chengdu. Another advance was made by United Laboratories Chengdu to Pengzhou Municipal Finance Bureau to fund the construction cost of a road to the transformer substation and as compensation for removal and resettlement. It was agreed between the Pengzhou Municipal Finance Bureau and United Laboratories Chengdu that all advances would be interest-free and any outstanding amount after offsetting the two payments would be repaid by the owing party. After offsetting these two payments, an amount of RMB6.4 million was due from United Laboratories Chengdu to the Pengzhou Municipal Finance Bureau.

The PRC legal advisers to the Company confirmed that although lending between United Laboratories Chengdu and the Pengzhou Municipal Finance Bureau was not in compliance with the PRC laws and regulations governing lending and borrowing between administrative departments and enterprises, given that no interest was charged by the lender for those loans, United Laboratories Chengdu would not be subject to any fine penalty by the People's Bank of China. This loan will be settled prior to the listing of the Company's shares on the Stock Exchange.

As advised by the Group's PRC legal advisers, the Group may be subject to fines imposed by the PRC People's Bank (中國人民銀行) amounting to one to five times of any interest charged under the loan should the Group be found to have charged interest on the advances and in breach of PRC rules and regulations. Pursuant to a Deed of Indemnity given by the Indemnifiers to the Company, the Indemnifiers shall indemnify the Group against any losses or damages suffered by the Group as a result of or in connection with such advance, and such advance having been made in breach of any applicable laws or regulations or the articles of association or business licence or business regulation of the entity or person making or receiving the advances.

The Company confirmed that it will endeavour to ensure that no advances which are not in compliance with PRC rules and regulations will be made by the Group after listing.

As at 30 April 2007, the Group's used banking facilities amounted to HK$1,385.2 million of which HK$230.2 million was trade finance facilities and the Group's unused banking facilities amounted to HK$257.1 million of which HK$107.7 million was trade finance facilities. The Group has, since 30 April 2007, obtained new banking facilities of RMB200 million of which HK$150.0 million was trade finance facilities on 6 February 2007. The Group has obtained written confirmation from the relevant banks in the PRC in relation to renewal of the Group's banking facilities of RMB959.5 million of which RMB312.5 million was trade finance facilities as at 30 April 2007 for another year upon maturity.

The following table sets forth the Group's gearing ratios as of the dates indicated:

	As at 31 December		
	2004	**2005**	**2006**
Gearing ratios[(1)]	41.1%	39.8%	39.5%

(1) Gearing ratios are calculated by dividing total debts by total assets and multiplying the quotient by 100.

The Group's gearing ratios decreased moderately over the Track Record Period from 41.1% to 39.5% mainly because the Group funded its capital expenditures through debt financing, but these capital expenditures resulted in corresponding assets on the Group's balance sheets.

Guarantees from shareholders

In addition to the amount due from Mr Choy, a Director, and the loan from him as set out in the paragraph headed "Amount due to a director" above in the section headed "Loan advances to and from the Group" of this prospectus, certain of the banking facilities of the Group as at 31 December 2006 were secured by the personal guarantees, bank deposits, securities and leasehold and buildings provided by Mr Choy and Mrs Choy. All of the above guarantees and securities will be released upon Listing.

Non-compliance with loan covenants

The Group did not comply with certain financial covenants (the "financial covenants") contained in the loan agreement entered into by the Group with one of its principal banks, which covenants required that the Group's gearing should not exceed a specified ratio and prohibited the pledge of certain of the Group's assets. This non-compliance was waived by the bank in January 2007. The portions of the amount outstanding under such loan agreements which were repayable one year from 31 December 2005 and 2006 were HK$134,533,000 and HK$42,238,000 respectively. Further details on such non-compliance are contained in the accountants' report set out in Appendix I to this prospectus.

Following the incidents of breach of loan covenants, the chief financial officer of the Group began to personally review all bank facilities on a monthly basis so as to ensure compliance with the loan covenants thereunder. Moreover, before the Group enters into agreements with banks for borrowing new loans, the chief financial officer would review the existing bank facilities to ensure compliance with the loan covenants (taking into account the new loans).

TAXATION

Enterprises with operations in the PRC are generally liable to pay enterprise income tax at the rate of 33% on their taxable income except where laws, administrative regulations and relevant rules of the State Council provide for tax holidays. According to《外商投資企業和外國企業所得税法》(the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises) of the PRC which came into force on 1 July 1991, a foreign investment enterprise engaging in manufacturing business which has an operating term of over 10 years is exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operation, after setting off losses carried forward, and is entitled to a 50% relief from corporate income tax of the PRC for the following three years. Three of the Group's subsidiaries, United Laboratories Zhuhai, Zhuhai Lebang and Kingly Capsule, being foreign investment enterprises satisfying the qualifications for such exemption, enjoyed various lower effective enterprise income tax rates during the Track Record Period.

In accordance with《外商投資企業和外國企業所得税法實施細則》(Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises) of the PRC which came into force on 1 July 1991, United Laboratories Zhuhai (Zhongshan Branch Company), due to it being categorised as an Enterprise of Advanced New Technology (先進技術企業), was granted an extended benefit of enjoying a 50% relief from the 24% income tax rate that it was subject to during the three years ended 31 December 2003, 2004 and 2005, despite its entitlement to the general two-year full plus three-year 50% exemption (兩免三減) mentioned above had ended in the year ended 31 December 2002. The standard income tax rate applicable to United Laboratories Zhuhai (Zhongshan Branch Company) was 24% for the year ended 31 December 2006. The bulk medicine factory at the Sanzao base of United Laboratories Zhuhai, having made additional investment which exceeded 50% of its original registered capital, and because its production and operations can be differentiated from those of the Zhongshan Branch Company, has been granted the benefit of the two-year full plus three-year 50% exemption. Its income tax for foreign invested enterprises is entitled to a 50% exemption for 2002 to 2004 on a base rate of 15%. Further, the bulk medicine factory at the Sanzao base of United Laboratories Zhuhai is entitled, in 2005 to 2007, to enjoy the benefit of having its 50% exemption for income

tax for foreign invested enterprises extended for three years. Due to the reason that an enterprise's qualification as an Enterprise with Advanced New Technology (先進技術企業) would be assessed in the first six months of the year following every applicable tax year, the bulk medicine factory at the Sanzao base of United Laboratories Zhuhai may pre-pay its income tax at a rate of 10% during the pre-payment season. Zhuhai Lebang, being situated in a special economic region, was determined by the relevant tax authorities as having its first profitable year of operation in 2005, and was awarded the two-year full plus three-year 50% exemption mentioned above at a rate of 15% before discount for the period from 1 January 2005 to 31 December 2009. Kingly Capsule, being a foreign invested production enterprise whose applicable standard income tax rate is 24%, was determined by the relevant tax authorities as having its first profitable year of operation in 2001, and was awarded the two-year full plus three-year 50% exemption mentioned above at a rate of 24% before discount from 2001 to 2005.

For the three years ended 31 December 2004, 2005 and 2006, the Group's taxation amounted to approximately HK$26.9 million, HK$42.5 million and HK$47.9 million respectively, representing an increase of approximately HK$21.0 million or 78.1% from 2004 to 2006. The effective tax rate of the Group was 15.3%, 24.2% and 21.6% in 2004, 2005 and 2006 respectively. The effective tax rate increased from 15.3% in 2004 to 21.6% in 2006, because different companies within the Group are subject to different tax rates because of their diverse geographic locations within (and outside) the PRC and because each of these companies have generated varying levels of profit and loss over the Track Record Period.

The amount of tax effect of expenses not deductible for tax purposes for the Group increased significantly in 2006, mainly due to increased transaction costs that were not directly attributable to the issue of new shares according to the Inland Revenue Ordinance.

INVESTMENT

General

The Group holds 562,500 shares of par value US$0.1 common stock of a bio-medical company in the United States, representing approximately 2.1% of the total issued share capital of such company as at 31 December 2006. Such investment was made by the Group in 2002 at a consideration of US$2,999,812 (equivalent to approximately HK$23,417,000) which was determined after arm's length commercial discussions between the Group and such company. During the Track Record Period, before a decision relating to a material investment was made by the Group, the related proposed investment was required to be reviewed, assessed, and where appropriate, approved by the relevant members of the senior management of the Group which mainly comprised of Mr Choy, Ms Peng and Mr Leung (all of whom are executive Directors), having considered factors such as whether such proposed investment would be in line with the business plan and strategy of the Group then in force.

Investment Policy

The Group has invested in small scale available-for-sale investments and associates during the Track Record Period, being the investment mentioned above in the paragraph headed "General" under the sub-heading "Investment" in this section. The Group has no formalised investment policy with regard to such investments. They are made on a case-by-case and opportunistic basis according to the Group's business development strategy, and are approved by the Chairman and by the Board.

DISTRIBUTABLE RESERVES

There were no distributable reserves as at 31 December 2006, as determined in accordance with Hong Kong Standards on Auditing.

DIVIDENDS AND WORKING CAPITAL

Dividends

United Laboratories Zhuhai declared dividends of RMB400 million (equivalent to approximately HK$406 million) to its then shareholders (being inter-group companies and Mr Tsoi) pertaining to the year ended 31 December 2005, which was recorded as an inter-group transfer and which did not result in any cash outflow from the Group. Other than the aforesaid, no dividends were declared and/or paid by the Group during the Track Record Period. United Laboratories (BVI) Holding, the then holding company of the Group, declared a special dividend of HK$277,083,000 to Mr Choy on 21 May 2007. This dividend was settled by offsetting the amount due from Mr Choy of HK$437,183,000 and the loan owed to Mr Choy of HK$160,100,000.

The Group may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board and as permitted by applicable laws. The Articles provide that dividends may be declared and paid out of the Company's profit, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) the Group will declare and pay all dividends according to the amounts paid up on the shares but no amount paid up on a share in advance of calls will for this purpose be treated as paid up on the share and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the year in respect of which the dividend is paid.

In addition, the declaration of dividends is subject to the discretion of the Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- the Group's general business conditions;
- the Group's financial results;
- the Group's capital requirements;
- interests of the Company's shareholders; and
- any other factors which the Directors may deem relevant.

The Directors intend to declare dividends, if any, in Hong Kong dollars with respect to Shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to approval from the Company's shareholders.

Taking account of the Group's financial position, the Directors currently intend, subject to the abovementioned limitations, and in the absence of any circumstance which might reduce the amount of dividend available for distribution, whether by losses or otherwise, to distribute to the Company's shareholders not less than 35% of the Group's profits available for distribution for the year ended 31 December 2007, and, for subsequent years. There is, however, no assurance that dividends of such amount or any amount will be declared or distributed in any year.

The payment of dividends may be limited by legal restrictions and by financing agreements that the Group may enter into in the future.

Working capital

Taking into account the estimated net proceeds from the Share Offer, available banking facilities and cashflows from the operations of the Group, the Directors believe that the Group has sufficient working capital for the present requirements of the Group, which is for at least the next 12 months from the date of this prospectus.

PROPERTY INTERESTS

Owned property

Sallmanns (Far East) Limited, an independent valuer, has valued the Group's property interests as at 31 March 2007 and is of the opinion that the Group's property interests was valued at an aggregate amount of RMB673,120,000 (equivalent to approximately HK$679,919,000) as at 31 March 2007. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix III to this prospectus.

Most of the Group's manufacturing assets, including those of its subsidiaries, are situated in Zhuhai, Zhongshan and Kaiping, Guangdong Province and Chengdu, Sichuan Province in the PRC and Hong Kong. The total site area occupied by the Group's production plants was approximately 717,160.75 sq.m. and their total gross floor area was approximately 221,272 sq.m. as at 31 March 2007. The Group also acquired certain premises with an aggregate gross floor area of approximately 1,950 sq.m. for use by its sale offices.

The Group also held and occupied 3 buildings with a total gross floor area of approximately 4,954.21 sq.m. in Zhuhai, Guangdong Province, PRC and a unit with a gross floor area of approximately 1,125 sq.ft. in Hong Kong for residential use as at 31 March 2007.

Leased property

As at 31 December 2006, the Group leased four properties with an aggregate floor area of approximately 7,341.5 sq.m. for residential and office uses in the PRC from third parties.

In respect of three of the Group's leased properties in the PRC with an aggregate gross floor area of approximately 7,218.5 sq.m., the Group's landlords have not provided the Group with evidence of their valid and enforceable building ownership rights, the relevant title documents or evidence of their relevant rights or authority to sub-lease such properties. But they are all used as residential purpose for the Group, it is easy for the Group to change the alternative commendation for its staff.

For the Group's four leased properties in the PRC, its international valuer considers that the rental charges are determined based on the market rate. All the lease agreements have not been registered, but the PRC legal advisers confirm that it does not affect the validity and the enforceability of the lease agreement.

PROPERTY VALUE RECONCILIATION

Particulars of the Group's property interests are set out in Appendix III to this prospectus. Sallmanns (Far East) Limited has valued the property interests of the Group as at 31 March 2007. A summary of values and valuation certificates issued by Sallmanns (Far East) Limited are included in Appendix III to this prospectus.

The table below sets forth the reconciliation of aggregate amounts of buildings from the Group's audited combined financial information as at 31 December 2006 to the unaudited net book value of the Group's property interests as at 31 March 2007:

	HK$'000
Net book value of property interests of the Group as at 31 December 2006	625,802[(1)]
Additions	–
Depreciation	5,646
Disposals	–
Net book value as at 31 March 2007	620,156
Valuation surplus as at 31 March 2007	59,763
Valuation as at 31 March 2007 per "Appendix III – Property Valuation Report"	679,919

(1) Amount represents the carrying amount of building HK$543,522,000 and prepaid lease payments HK$82,280,000.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets is based on the Group's net tangible assets as of 31 December 2006 contained in the Accountants' Report in Appendix I to this prospectus and adjusted as described below:

	Audited combined net tangible assets attributable to equity holders of the Group as of 31 December 2006[1]	**Estimated net proceeds from issue of Offer Shares**[2]	**Unaudited pro forma adjusted net tangible assets**[3][4]	**Unaudited pro forma adjusted net tangible assets per Share**[5]
	(HK$ in millions)			*(HK$)*
Based on Offer Price of HK$2.75 per Share	1,305	744	2,049	1.71
Based on Offer Price of HK$2.25 per Share	1,305	600	1,905	1.59

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Group following the Share Offer.

Notes:

1. Audited combined net tangible assets of the Group as at 31 December 2006 are determined based on the audited combined net assets of the Group of HK$1,311,595,000 at 31 December 2006, excluding the Group's goodwill of HK$3,001,000 and intangible assets of HK$3,663,000 as at 31 December 2006.

2. The estimated net proceeds of the Share Offer are based on the New Shares and the Offer Price of HK$2.75 and HK$2.25 per Share, after deduction of the underwriting fees and related expenses payable by the Company.

3. The calculation of the unaudited pro forma adjusted net tangible assets per Share is calculated based on the total of 1,200,000,000 Shares in issue (including Shares in issue as at the date of this prospectus, Capitalisation Issue and those Shares to be issued pursuant to the Share Offer but without taking into account any Shares which may fall to be issued pursuant to the Share Option Scheme or which may fall to be issued or repurchased pursuant to the general unconditional mandate of the Company).

4. With reference to the valuation of the Group's properties as at 31 March 2007 as set out in Appendix III to this prospectus, there was a revaluation surplus of the Group's properties of approximately HK$59.8 million. The Group will not incorporate the revaluation surplus in its financial statements. If the revaluation surplus were to be incorporated in the Group's financial statements, additional depreciation charge would be approximately HK$1.2 million per annum.

5. Subsequent to 31 December 2006, United Laboratories (BVI) Holding, the then holding company of the Group, declared a special dividend of HK$277,083,000 to Mr Choy on 21 May 2007. This dividend was settled by offsetting the amount due from Mr Choy of HK$437,183,000 and loan from Mr Choy of HK$160,100,000. No adjustment to the net tangible assets of the Group as of 31 December 2006 was made in respect of such declared dividend of HK$277,083,000.

Subsequent to 31 December 2006, United Laboratories (BVI) Holding, the then holding company of the Group, declared a special dividend of HK$277,083,000 to Mr Choy on 21 May 2007. This dividend was settled by offsetting the amount due from Mr Choy of HK$437,183,000 and the loan owed to Mr Choy of HK$160,100,000. No adjustment to the net tangible assets of the Group as of 31 December 2006 was made in respect of such declared dividend of HK$277,083,000.

NO MATERIAL ADVERSE CHANGE

There has been no material change in the financial or trading position or prospects of the Group since 31 December 2006 (being the date to which the latest audited financial statements of the Group were made up).

FUTURE PLANS

The Group's overall objective is to become the leading and the largest generic antibiotics manufacturing enterprise in the PRC offering a wide spectrum of high quality products. To achieve this objective, the Group's principal business strategies are set out under "Business Strategies" in the section headed "Summary" of this prospectus which include:

- Maximising the benefits of vertical integration
- Enlarging its market share and expanding its market coverage in the PRC and increasing sales outside the PRC
- Further strengthening of its sales and marketing network
- Expanding its product range and introducing new antibiotics finished products and other finished products
- Further improvement in product quality and customer service

The Group's key business plans include:

Expansion and strengthening of sales network

As the Group seeks to further expand its sales of antibiotics and other finished products in rural areas and its other less established markets in the PRC, it plans to recruit additional sales and marketing staff for the purpose of establishing a new sales and marketing team with specific responsibility for developing sales in these markets.

If conditions are sufficiently mature, the Group may establish additional sales offices in the PRC to further strengthen its sales and marketing capability. The Group plans to recruit additional sales and marketing staff to join its existing sales offices as well as any new sales office that may be established.

The Group intends to use approximately 15.9% of the net proceeds of the Share Offer for expanding the Group's sales and marketing network.

Improvement of existing production facilities and establishment of new production workshop

The Group intends to finance the total cost of improvement of existing production facilities and establishment of new production workshop with approximately 43.7% of the net proceeds of the Share Offer. The Group plans to purchase new equipment to further improve its existing production facilities for intermediate products and antibiotics finished products at its production plants in Chengdu and Zhuhai. The Group expects that the introduction of the new equipment will increase its production capacity for antibiotics finished products and bulk medicine to a level which will enable it to meet the expected increase in market demand for such products in the near future, which, the Directors believe, will exceed the Group's current production capacity even at full utilisation. The Group intends to complete the installation of such equipment in 2008.

The Group intends to establish new production workshops, which it expects will cost approximately RMB72.1 million (approximately HK$73.2 million), to engage in the production of antibiotics, non-antibiotics and bio-pharmaceutical products (including the penem, the insulin for the treatment of diabetes and the medicine for the treatment of Alzheimer's disease currently under development by the Group) at its production plant in Zhongshan. The Group intends to fund the cost of the new production workshops out of internal resources and IPO proceeds. The Group plans to complete the construction of this workshop in 2007.

Strengthening of research and development capability

To keep pace with market development and to further raise the technical standards and competitiveness of its products, the Group plans to strengthen its research and development capability (including with respect to the research and development of new non-antibiotics and bio-pharmaceutical products). The Group intends to purchase new equipment to upgrade its existing research and development facilities and to recruit additional staff to strengthen its research and development teams. The Group intends to use approximately 10.9% of the net proceeds of the Share Offer to strengthen its research and development capabilities.

USE OF PROCEEDS

The Directors believe that the Share Offer will enhance the Group's capital base and provide funding for the implementation of its future plans.

The net proceeds of the Share Offer after deducting commissions and related expenses, and assuming an Offer Price of HK$2.50 per Share (being the mid-point of the stated range of the Offer Price of between HK$2.25 and HK$2.75 per Share), are estimated to amount to approximately HK$672.2 million (the "Net Proceeds"). In connection with its future plans (details of which are more particularly set out in the paragraph headed "Future plans" in this section), the Group currently intends to apply the Net Proceeds as follows:

(1) approximately HK$294.0 million (representing approximately 43.7% of the net proceeds) for expansion and upgrading of the Group's production facilities;

(2) approximately HK$106.9 million (representing approximately 15.9% of the net proceeds) for market development and expansion of the Group's sales and marketing network;

(3) approximately HK$73.5 million (representing approximately 10.9% of the net proceeds) for strengthening the Group's research and development capabilities by setting up additional research and development facilities;

(4) approximately HK$180.4 million (representing approximately 26.8% of the net proceeds) for the partial repayment of two of the Group's outstanding loan facilities, one of which is due in September 2007 and carries an interest rate of 5.76% per annum and the other is due in December 2007 and carries an interest rate of 6.12% per annum; and

(5) the balance of approximately HK$17.4 million (representing approximately 2.7% of the net proceeds) as general working capital of the Group.

The loan facilities referred to in paragraph (4) above is not provided by The Hongkong and Shanghai Banking Corporation Limited or any of its subsidiaries. The Company has undertaken to the Stock Exchange that it will not use any part of the Net Proceeds to repay any loan due from the Group to The Hongkong and Shanghai Banking Corporation Limited or any of its subsidiaries.

The above allocations of the proceeds from the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is fixed at the highest or at the lowest point of the indicative Offer Price range.

The net proceeds from the sale of the Sale Shares by the Selling Shareholder pursuant to the exercise of the Over-allotment Option after deducting the related expenses, and assuming an Offer Price of HK$2.50 per Share (being the mid-point of the stated range of the Offer Price of between HK$2.25 and HK$2.75 per Share) through the exercise of the Over-allotment Option, are estimated to amount to approximately HK$101.8 million. The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder pursuant to the exercise of the Over-allotment Option. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholder in the Share Offer through the exercise of the Over-allotment Option will be for the account of the Selling Shareholder.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, the Directors currently intend to place such proceeds on short term deposits with banks and qualified financial institutions.

PUBLIC OFFER UNDERWRITER

The Hongkong and Shanghai Banking Corporation Limited

INTERNATIONAL PLACING UNDERWRITERS

The Hongkong and Shanghai Banking Corporation Limited
China International Capital Corporation (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

PUBLIC OFFER

Public Offer Underwriting Agreement

The Public Offer Shares are being offered for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, the Offer Shares as mentioned herein and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriter has agreed to purchase or procure purchasers for the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Grounds for Termination

The obligation of the Public Offer Underwriter to subscribe for or procure subscribers for the Public Offer Shares is subject to termination if, at any time prior to 8:00 a.m. on the day on which dealings in the Shares commence on the Stock Exchange:

(i) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:

(a) any change in, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States) in Hong Kong, the United States, the United Kingdom, the British Virgin Islands, the Cayman Islands or the PRC; or

(b) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any public, regulatory, taxing, administrative or governmental agency or authority (including, without limitation, the Stock Exchange and the SFC) and any court at the national, provincial, municipal or local level ("Governmental Authority") or change in existing laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices,

circulars, orders, judgments, decrees or rulings of any Governmental Authority or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the United States, the United Kingdom, the British Virgin Islands, the Cayman Islands or the PRC; or

(c) any event of force majeure affecting Hong Kong, the United States, the United Kingdom, the British Virgin Islands, the Cayman Islands or the PRC including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or

(d) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the London Stock Exchange or the New York Stock Exchange or any major disruption of any securities settlement or clearing services in the United States, the United Kingdom or Hong Kong or on commercial banking activities in Hong Kong or New York due to exceptional financial circumstances or otherwise; or

(e) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the United States, the United Kingdom, the British Virgin Islands, the Cayman Islands or the PRC,

which in the sole opinion of the Global Coordinator:

(1) is or will have , or is likely to have , material adverse impact on the general affairs, management, business, financial, trading or other condition or prospects of the Group or to any present or prospective Shareholder in its capacity as such; or

(2) has or will have, or is likely to have, a material adverse impact on the success of the Share Offer or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of Offer Shares or dealings in the Shares in the secondary market; or

(3) makes it impracticable, inadvisable or inexpedient to proceed with the Public Offer and/or the International Placing on the terms and in the manner contemplated by this prospectus and the Application Forms; or

(ii) there has been a material breach of any of the representations, warranties, agreements and undertakings given by the Company or the Choy Family or the Selling Shareholder or any of the executive directors of the Company in the Public Offer Underwriting Agreement or there has been a material breach by the Company or the Controlling Shareholders or any of the executive directors of the Company of any of the provisions of the Public Offer Underwriting Agreement; or

(iii) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission therefrom; or

(iv) any statement contained in this prospectus has become, or been discovered to be, untrue, incorrect or misleading in any respect to the extent it is material to the Group; or

(v) there shall have occurred any event, act or omission which gives or is likely to give rise to any material liability of any of the Company or the Choy Family or the Selling Shareholder or the executive directors of the Company pursuant to the indemnities referred to in the Public Offer Underwriting Agreement; or

(vi) there shall have been any adverse change or prospective adverse change in the business or the financial or trading position of any member of the Group,

then the Global Coordinator, in its sole and absolute discretion, may, upon giving notice in writing to the Company on or prior to 8:00 a.m. on the day on which dealings in the Shares commence on the Stock Exchange (with a copy of such notice to the Choy Family, the Selling Shareholder and the executive directors of the Company), terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings

Pursuant to the Public Offer Underwriting Agreement and the International Placing Underwriting Agreement, the Company has undertaken to the Public Offer Underwriter and expects to undertake to each of the International Placing Underwriters, respectively, that, except pursuant to the Share Offer, the exercise of the Over-allotment Option and/or the Stock Borrowing Agreement and except pursuant to any share option scheme of any member of the Group, the Company will not, without the prior written consent of the Global Coordinator (on behalf of the Underwriters) and unless in compliance with the Listing Rules:

(a) at any time after the date of the Public Offer Underwriting Agreement and the International Placing Underwriting Agreement, respectively, up to and including the date falling six months after the date on which dealings in the Shares first commence on the Stock Exchange (the "First Six-Month Period"), (i) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein ; or (iii) enter into any transaction with the same

economic effect as any transaction described in (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i), (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or other securities, in cash or otherwise; and

(b) enter into any of the foregoing transactions in paragraphs (a)(i), (ii) and (iii) above, or agree or contract to or publicly announce any intention to enter into any such transaction, such that the Choy Family or the Selling Shareholder would cease to be controlling shareholder(s) (as defined in the Listing Rules) of the Company during the six-month period immediately following the First Six-Month Period (the "Second Six-Month Period").

Further, the Selling Shareholder and each of the members of the Choy Family and the Selling Shareholder has undertaken to the Public Offer Underwriter and is expected to undertake to each of the International Placing Underwriters, respectively, that, except pursuant to the Share Offer, the exercise of the Over-allotment Option and/or any stock borrowing arrangements agreed between the Selling Shareholder and the Global Coordinator in connection with the Share Offer:

(a) during the First Six-Month Period, it will not, without the prior written consent of the Global Coordinator (on behalf of the Underwriters) and unless in compliance with the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share or debt capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such capital or securities or any interest therein; or (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise;

(b) during the Second Six-Month Period, it will not enter into any of the foregoing transactions in paragraphs (a)(i) or (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal, the Choy Family or the Selling Shareholder will cease to be controlling shareholders (as the term is defined in the Listing Rules) of the Company; and

(c) until the expiry of the Second Six-Month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Pursuant to Listing Rule 10.07(1), BVI Intermediate Company, The Choy Family Trust and the Choy Family, as the controlling shareholders of the Company, shall not, except pursuant to the Share Offer, the Over-allotment Option or the Stock Borrowing Agreement:

(i) without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, during the period commencing on the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the day on which dealings in the Shares commence on the Stock Exchange, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which the Controlling Shareholders are shown by this prospectus to be the beneficial owner (the "Parent Shares"); and

(ii) without the prior written consent of the Stock Exchange, during the Second Six-Month Period dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Parent Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be controlling shareholders of the Company.

Each of the members of the Choy Family and the Selling Shareholder has undertaken to the Company and the Global Coordinator that, at any time during the period commencing on the date by reference to which disclosure of the shareholding of each of the members of the Choy Family and the Selling Shareholder is made in this prospectus and up to and including the date falling 12 months from the day on which dealings in the Shares commence on the Stock Exchange, it shall (i) if and when it pledges or charges any securities or interests in the securities of the Company beneficially owned by it, immediately inform the Company, the Global Coordinator and the Stock Exchange in writing of such pledge or charge, together with the number of securities so pledged or charged; and (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be disposed of, immediately inform the Company, the Global Coordinator and the Stock Exchange in writing of such indications. The Company has undertaken that upon receiving such information mentioned in (i) and (ii) of this paragraph in writing from any of the members of the Choy Family or the Selling Shareholder, the Company shall, as soon as practicable, notify the Stock Exchange and make a public disclosure in relation to such information by way of an announcement.

Commission and Expenses

The Public Offer Underwriter will receive a commission of 3% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer (after deducting the number of unsubscribed Public Offer Shares (if any), which are reallocated to the International Placing), out of which they will pay any sub-underwriting commissions. For unsubscribed Public Offer Shares reallocated to the International Placing, the Company will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Placing Underwriters and not the Public Offer Underwriter.

In addition, HSBC (for itself) (a) will receive in its capacity as the bookrunner a fixed fee of 0.5% of the aggregate principal amount of the Shares sold or offered for subscription pursuant to the Share Offer (including any Shares in respect of which the Over-allotment Option is exercised) and (b) may receive an additional discretionary fee of up to 0.5% of such aggregate principal amount.

Public Offer Underwriter's interest in the Company

Save for its obligations under the Public Offer Underwriting Agreement, the Public Offer Underwriter does not have any shareholding interests in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

INTERNATIONAL PLACING

International Placing Underwriting Agreement

In connection with the International Placing, the Company, the Choy Family, the Selling Shareholder and the executive Directors expect to enter into the International Placing Underwriting Agreement with the International Placing Underwriters. Under the International Placing Underwriting Agreement, the International Placing Underwriters to be named therein would severally agree to subscribe for or purchase the International Placing Shares or procure purchasers for the International Placing Shares.

Under the International Placing Underwriting Agreement, the Selling Shareholder intends to grant to the Global Coordinator the Over-allotment Option, exercisable at the sole and absolute discretion of the Global Coordinator from the day on which dealings in the Shares commence on the Stock Exchange until the thirtieth day after the last day for lodging applications under the Public Offer, to require the Selling Shareholder to sell up to 45,000,000 Shares, representing in aggregate 15% of the maximum number of Offer Shares initially available under the Share Offer. These Shares will be sold at the Offer Price and will be solely for the purpose of covering over-allocations in the International Placing, if any.

TOTAL EXPENSES

Assuming an Offer Price of HK$2.50 per Share (being the midpoint of the stated Offer Price range of HK$2.25 to HK$2.75 per Share), the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.004%, Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Share Offer, are estimated to amount in aggregate to approximately HK$77.8 million (assuming the Over-allotment Option is not exercised) in total. Such commissions, fees and expenses are payable by the Company in proportion to the number of Offer Shares issued under the Share Offer. Should the Global Coordinator exercise the Over-allotment Option, all costs and expenses relating to the sale of any Shares by the Selling Shareholder under the Over-allotment Option will be borne by the Selling Shareholder. All costs and expenses in respect of the sale of the Sale Shares pursuant to the Over-allotment Option will be borne by the Selling Shareholder. Stamp duty (if any) payable in respect of any such Sale Shares shall be borne by the Selling Shareholder.

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$2.75. Based on the maximum Offer Price of HK$2.75 per Offer Share, plus 1.0% brokerage fee, 0.004% SFC transaction levy (per side) and 0.005% Stock Exchange trading fee (per side), one board lot of 2,000 Shares will amount to a total of HK$5,555.5.

The Offer Price is expected to be determined by the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) on or about Friday, 8 June 2007, or such later time as may be agreed by the Company and the Global Coordinator but in any event no later than Wednesday, 13 June 2007.

If, based on the level of interests expressed by prospective professional and institutional investors during the book-building process, the Global Coordinator (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. **If applications for Public Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.**

If, for any reason, the Offer Price is not agreed between the Company, the Selling Shareholder and the Global Coordinator (on behalf of the Underwriters) before Wednesday, 13 June 2007, the Share Offer will not proceed and will lapse.

CONDITIONS

Acceptance of all applications for the Share Offer will be conditional upon:

(i) the Listing Committee granting a listing of, and permission to deal in the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and any shares which may be issued under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(ii) the Offer Price having been duly determined and the execution and delivery of the International Placing Underwriting Agreement on or about the Price Determination Date; and

(iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Global Coordinator on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case at or before the dates and times specified in the Public Offer Underwriting Agreement or such later date as the Global Coordinator may agree with the Company not being later than 30 days after the date of this prospectus. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for the Public Offer Shares". In the meantime, such monies will be held in a separate bank account with the Receiving Banker or other licensed bank(s) in Hong Kong.

OFFER MECHANISM – BASIS OF ALLOCATION OF SHARES

The Share Offer

The Share Offer consists of the International Placing and the Public Offer. The 300,000,000 Shares initially offered will comprise 270,000,000 Shares being offered under the International Placing and 30,000,000 New Shares being offered under the Public Offer. The 300,000,000 Shares being offered under the Share Offer will represent 25% of the Company's enlarged share capital immediately after completion of the Share Offer and the Capitalisation Issue. The Selling Shareholder is expected to offer and sell Shares in the International Placing only and not in the Public Offer. All stamp duty payable in connection with the purchase of the Sale Shares from the Selling Shareholder (if any) will be borne by the Selling Shareholder. The Over-allotment Option is expected to be made available to the Global Coordinator and will not be part of the Public Offer.

Investors may either apply for the Shares under the Public Offer or indicate an interest, if qualified to do so, for the Shares under the International Placing, but may not do both.

Subject to possible reallocation on the basis set forth below, 30,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will be offered to the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 300,000,000 Shares offered pursuant to the Share Offer, 270,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will be placed with professional and institutional investors in Hong Kong, the United States, Europe and elsewhere under the International Placing. The International Placing Shares will be offered in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S, and in the United States to QIBs, as defined in and in reliance on, Rule 144A.

In connection with the Share Offer, the Selling Shareholder intends to grant to the Global Coordinator the Over-allotment Option which is exercisable at any time within 30 days from the last date for lodging applications under the Public Offer. Pursuant to the Over-allotment Option, the Selling Shareholder may be required to sell up to an aggregate of 45,000,000 Shares (representing 15% of the number of Shares initially being offered under the Share Offer) to cover over-allocations in the International Placing. The Global Coordinator may also cover over-allocations in the International Placing by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and the exercise, in part or in full, of the Over-allotment Option. The number of Shares that may be over-allocated will not exceed the maximum number of Shares that may be sold under the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

If the Global Coordinator decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing. The International Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the Shares on the Stock Exchange.

The levels of indication of interest in the International Placing and the basis of allotment and the results of application under the Public Offer are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on or before Thursday, 14 June 2007. Results of allocations will also be available from the Company's Public Offer website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Thursday, 14 June 2007 to 12:00 midnight on Wednesday, 20 June 2007.

The net proceeds from the Share Offer, after deducting commissions and expenses and assuming an Offer Price of HK$2.50 per Offer Share (being the mid-point of the stated range of the Offer Price between HK$2.25 to HK$2.75 per Offer Share), are estimated to be approximately HK$672.2 million. The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder pursuant to the exercise of the Over-allotment Option. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholder in the Share Offer through the exercise of the Over-allotment Option will be for the account of the Selling Shareholder.

The Public Offer

The Company is initially offering 30,000,000 Public Offer Shares, representing 10% of the total number of Shares initially being offered in the Share Offer, for subscription by way of a public offer in Hong Kong. The Public Offer Shares are being offered at the Offer Price. The Public Offer is fully underwritten by the Public Offer Underwriter, subject to the entering into of the Price Determination Agreement and the other terms and conditions of the Underwriting Agreements.

The total number of Shares available for subscription under the Public Offer (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of HK$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool (i.e. 15,000,000 Shares) are liable to be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the Shares between the International Placing and the Public Offer is subject to adjustment. If the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the International Placing, so that the total number of Shares available for subscription under the Public Offer will increase to 90,000,000 Shares, representing 30% of the Shares initially available for subscription or purchase (as the case may be) under the Share Offer. If the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then the number of Shares to be reallocated to the Public Offer from the International Placing will be increased so that the total number of Shares available for subscription under the Public Offer will be 120,000,000 Shares, representing 40% of the Shares initially available for subscription or purchase (as the case may be) under the Share Offer. If the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then the number of Shares to be reallocated to the Public Offer from the International Placing will be increased, so that the total number of Shares available for subscription under the Public Offer will increase to 150,000,000 Shares, representing 50% of the Shares initially available for subscription or purchase (as the case may be) under the Share Offer. In each such case, the additional Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced.

In addition, if the Public Offer is not fully subscribed, the Global Coordinator in its discretion may reallocate all or any unsubscribed Shares originally included in the Public Offer to the International Placing.

HSBC is the global coordinator and lead manager of the Public Offer which is underwritten at the Offer Price by the Public Offer Underwriter, on and subject to the terms and conditions of the Public Offer Underwriting Agreement.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants, this could, where appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The International Placing

The Company is initially offering 270,000,000 International Placing Shares, representing 90% of the total number of Shares initially being offered in the Share Offer, for subscription or purchase (as the case may be) by way of the International Placing. The International Placing is fully underwritten by the International Placing Underwriters, subject to the entering into of the Price Determination Agreement and the other terms and conditions of the International Placing Underwriting Agreement.

The International Placing Underwriters are soliciting from prospective professional and institutional investors indications of interest in acquiring International Placing Shares in the International Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as "book building". In Hong Kong, retail investors should apply for Shares in the Public Offer, as retail investors applying for International Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any International Placing Shares.

Allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

If the Public Offer is not fully subscribed, the Global Coordinator may reallocate all or any unsubscribed Shares originally included in the Public Offer to the International Placing.

The International Placing Underwriters or selling agents nominated by the International Placing Underwriters shall, on behalf of the Company and the Selling Shareholder, conditionally place the International Placing Shares with professional and institutional investors in Hong Kong, the United States (pursuant to Rule 144A and Regulation S), Europe and other regions. The International Placing of the International Placing Shares shall be subject to the Share Offer restrictions set out under the section headed "Information about this prospectus and the Share Offer".

The International Placing is conditional on the same conditions as set out in the section headed "Conditions" above. The total number of International Placing Shares to be allotted and issued pursuant to the International Placing may change as a result of the clawback arrangement referred to in the section headed "The Public Offer" above, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Public Offer.

OVER-ALLOTMENT AND STABILISATION

The Over-allotment Option

In connection with the Share Offer, the Selling Shareholder intends to grant to the Global Coordinator the Over-allotment Option, which will be exercisable by the Global Coordinator up to 7 July 2007, being the date which is 30 days from the last date for lodging applications under the Public Offer. Pursuant to the Over-allotment Option, the Selling Shareholder may be required to sell at the Offer Price up to an aggregate of 45,000,000 Sale Shares, representing 15% of the total number of Offer Shares initially available under the Share Offer, in connection with over-allocations in the International Placing, if any. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Stabilisation Action

In connection with the Share Offer, the Global Coordinator or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions, if commenced, may be discontinued at any time. The Global Coordinator has been or will be appointed as stabilising manager for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO and, should stabilising transactions be effected in connection with the Share Offer, this will be at the absolute discretion of the Global Coordinator. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilising) Rules made under the SFO.

Following any over-allotment of Shares in connection with the Share Offer, the Global Coordinator or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market or exercising the Over-allotment Option in full or in part, or by any combination of purchases and exercise of the Over-allotment Option. Any such purchases will be made in compliance with all applicable laws and regulatory requirements including the Securities and Futures (Price Stabilising) Rules made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold by the Selling Shareholder upon exercise of the Over-allotment Option, being 45,000,000 Sale Shares representing 15% of the Shares initially available under the Share Offer.

In order to facilitate the settlement of over-allocations in connection with the Share Offer, the Global Coordinator (or its affiliate(s)) may choose to borrow Shares from shareholders of the Company under stock borrowing arrangements, or acquire Shares from other sources, including pending exercise of the Over-allotment Option.

The Global Coordinator will enter into the Stock Borrowing Agreement with the Selling Shareholder whereby the Global Coordinator may borrow Shares from the Selling Shareholder on the following conditions:

(a) the stock borrowing will only be effected by the Global Coordinator for the settlement of over-allocations in connection with the International Placing;

(b) the maximum number of Shares borrowed from the Selling Shareholder will be limited to the maximum number of Shares which may be sold by the Selling Shareholder upon exercise of the Over-allotment Option;

(c) the same number of Shares borrowed from the Selling Shareholder must be returned to it or its nominees (as the case may be) within three Business Days after the earlier of (i) the last day on which the Over-allotment Option may be exercised; or (ii) the date on which the Over-allotment Option is exercised in full;

(d) the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and

(e) no payments will be made to the Selling Shareholder by the Global Coordinator in relation to such stock borrowing arrangement.

The possible stabilising action which may be taken by the Global Coordinator in connection with the Share Offer may involve (among other things) (i) over-allotment of Shares, (ii) purchases of Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) offering or attempting to do any of the foregoing. The stabilising period is expected to end within 30 days of the last day for the lodging of applications under the Public Offer.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Global Coordinator may, in connection with any stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Global Coordinator will maintain such a position;
- liquidation of any such long position by the Global Coordinator may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price and is expected to expire on the 30 day after the date expected to be the latest date for lodging applications under the Public Offer. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

LISTING ON ANY OTHER STOCK EXCHANGE

The Directors are not considering any listing of the Company on any other overseas stock exchange. The Company has not submitted any application nor obtained any approval for the listing of the Shares.

1. METHODS TO APPLY FOR THE PUBLIC OFFER SHARES

You may apply for the Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** application form;
- submitting an electronic application to the White Form eIPO Service Provider under the "**White Form eIPO**" service through the designated website at www.eipo.com.hk; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

You may not both apply for a WHITE or YELLOW application form and give electronic application instructions to HKSCC.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) WHITE application forms

Use a **WHITE** application form if you want the Public Offer Shares to be registered in your own name.

(b) YELLOW application forms

Use a **YELLOW** application form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) eIPO application

If you wish to apply for Public Offer Shares online through the designated website of the White Form eIPO Service Provider, referred to herein as the "**White Form eIPO**" service, in addition to the above you must:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

(d) Instruct HKSCC to make an electronic application on your behalf

Instead of using a **YELLOW** application form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

3. WHERE TO COLLECT THE APPLICATION FORMS

(a) You can collect a **WHITE** application form and a prospectus from:

Any participant of the Stock Exchange

or

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

or **any of the following branches of The Hongkong and Shanghai Banking Corporation Limited**:

	Branch	**Address**
Hong Kong Island	Hong Kong Office	1 Queen's Road Central
	Pacific Place Branch	Shop 401, Pacific Place, 88 Queensway
	North Point Branch	G/F, Winner House, 306-316 King's Road, North Point
	Aberdeen Centre Branch	Shop 2, G/F, Site I, Aberdeen Centre, Aberdeen
	Causeway Bay Branch	1/F, Causeway Bay Plaza 2, 463-483 Lockhart Road
	Des Voeux Road West Branch	Western Centre, 40-50 Des Voeux Road West
	Hopewell Centre Branch	Shop No.1-2, G/F, Hopewell Centre, 183 Queen's Road East, Wan Chai

Kowloon	Mong Kok Branch	673 Nathan Road, Mong Kok
	Kwun Tong Branch	No. 1, Yue Man Square, Kwun Tong
	Tsim Sha Tsui Branch	82-84 Nathan Road, Tsim Sha Tsui
	Whampoa Garden Branch	Shop No. G6 & 6A, G/F, Site 4, Whampoa Garden
	Telford Gardens Branch	Shop Unit P16, Blk G, Telford Plaza I, Kowloon Bay
New Territories	Citylink Plaza Branch	Shops 38-46, Citylink Plaza, Shatin Station Circuit, Sha Tin
	Yuen Long Branch	G/F, HSBC Building Yuen Long, 150-160 Castle Peak Rd, Yuen Long
	Tai Po Branch	54-62 Kwong Fuk Road, Tai Po

(b) You can collect a **YELLOW** application form and a prospectus during normal business hours from 9:00 a.m. on Monday, 4 June 2007 until 12:00 noon on Thursday, 7 June 2007 from:

the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(c) Your broker may have **YELLOW** application forms and this prospectus available.

4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) WHITE or YELLOW application forms

Completed **WHITE** or **YELLOW** application forms, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 7 June 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** application form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of The Hongkong and Shanghai Banking Corporation Limited listed in the paragraph headed "Where to collect the application forms" under this section at the following times:

Monday, 4 June 2007 – 9:00 a.m. to 4:30 p.m.
Tuesday, 5 June 2007 – 9:00 a.m. to 4:30 p.m.
Wednesday, 6 June 2007 – 9:00 a.m. to 4:30 p.m.
Thursday, 7 June 2007 – 9:00 a.m. to 12:00 noon

(b) White Form eIPO

You may submit your application to the White Form eIPO Service Provider through the designated website www.eipo.com.hk from 9:00 a.m. on Monday, 4 June 2007 until 12:00 noon on Thursday, 7 June 2007 or such later time as described under the sub-paragraph headed "Effects of bad weather conditions on the opening of the applications lists" below (24 hours daily, except on the last application day).

The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 7 June 2007, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subparagraph headed "Effects of bad weather conditions on the opening of the application lists" below.

You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(c) Electronic application instructions to HKSCC

CCASS Broker/Custodian Participants should input electronic application instructions at the following times:

Monday, 4 June 2007 – 9:00 a.m. to 8:30 p.m.[(1)]
Tuesday, 5 June 2007 – 8:00 a.m. to 8:30 p.m.[(1)]
Wednesday, 6 June 2007 – 8:00 a.m. to 8:30 p.m.[(1)]
Thursday, 7 June 2007 – 8:00 a.m.[(1)] to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, 4 June 2007 until 12:00 noon on Thursday, 7 June 2007 (24 hours daily, except the last application date).

The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 7 June 2007 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

(d) Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 7 June 2007, except as provided in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) Effect of bad weather conditions on the opening of the application lists

The application lists will be opened between 11:45 a.m. and 12:00 noon on Thursday, 7 June 2007, subject to weather conditions. The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 June 2007, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

5. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

(a) Obtain a **WHITE** or **YELLOW** application form.

(b) You should read the instructions in this prospectus and the relevant application form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your application form.

(c) Decide how many Public Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK$2.75 per Public Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.004% (per side) and the Stock Exchange trading fee of 0.005% (per side). The table below sets out the total amount payable for the specified number of Public Offer Shares.

Each application must be in one of the numbers set out in the table below:

Number of Shares that may be applied for and payments

No. of Public Offer Shares applied for	Amount payable on application *HK$*	No. of Public Offer Shares applied for	Amount payable on application *HK$*	No. of Public Offer Shares applied for	Amount payable on application *HK$*	No. of Public Offer Shares applied for	Amount payable on application *HK$*
2,000	5,555.50	32,000	88,887.92	350,000	972,211.63	4,000,000	11,110,990.00
4,000	11,110.99	34,000	94,443.42	400,000	1,111,099.00	4,500,000	12,499,863.75
6,000	16,666.49	36,000	99,998.91	450,000	1,249,986.38	5,000,000	13,888,737.50
8,000	22,221.98	38,000	105,554.41	500,000	1,388,873.75	5,500,000	15,277,611.25
10,000	27,777.48	40,000	111,109.90	550,000	1,527,761.13	6,000,000	16,666,485.00
12,000	33,332.97	50,000	138,887.38	600,000	1,666,648.50	6,500,000	18,055,358.75
14,000	38,888.47	60,000	166,664.85	700,000	1,944,423.25	7,000,000	19,444,232.50
16,000	44,443.96	70,000	194,442.33	800,000	2,222,198.00	7,500,000	20,833,106.25
18,000	49,999.46	80,000	222,219.80	900,000	2,499,972.75	8,000,000	22,221,980.00
20,000	55,554.95	90,000	249,997.28	1,000,000	2,777,747.50	8,500,000	23,610,853.75
22,000	61,110.45	100,000	277,774.75	1,500,000	4,166,621.25	9,000,000	24,999,727.50
24,000	66,665.94	150,000	416,662.13	2,000,000	5,555,495.00	9,500,000	26,388,601.25
26,000	72,221.44	200,000	555,549.50	2,500,000	6,944,368.75	10,000,000	27,777,475.00
28,000	77,776.93	250,000	694,436.88	3,000,000	8,333,242.50	12,500,000	34,721,843.75
30,000	83,332.43	300,000	833,324.25	3,500,000	9,722,116.25	15,000,000[(1)]	41,666,212.50

(1) Maximum number of Public Offer Shares you may apply for.

(d) Complete the application form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the application form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Company and the Sponsor (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

(e) Each **WHITE** or **YELLOW** application form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the application form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;

- show your account name, which must either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorised signatory of the bank. This account name must correspond with the name of the applicant on the application form. If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;

- not be post-dated;

- be made payable to "HSBC Nominees (Hong Kong) Limited – United Laboratories Public Offer"; and

- be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker's cashier order and the name on the application form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;

- not be post-dated;

- be in Hong Kong dollars;

- be made payable to "HSBC Nominees (Hong Kong) Limited – United Laboratories Public Offer"; and

- be crossed "Account Payee Only".

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

(f) Lodge your application form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 3(a) and 4(a) above.

(g) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed "4. How many applications you can make" in the section headed "Terms and conditions of the Public Offer" in this prospectus.

(h) In order for the **YELLOW** application forms to be valid:

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
  - the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and
  - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
  - you must fill in your full name and your Hong Kong Identity Card number; and
  - you must insert your CCASS Participant I.D. and sign in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
  - you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
  - you must insert your CCASS Participant I.D. and the authorised signatory or signatories of the CCASS Investor Participant's stock account must sign in the appropriate box.
- If you are applying as a corporate CCASS Investor Participant:
  - you must insert your company name and your company's Hong Kong business registration number; and
  - you must fill in your CCASS Participant I.D. and have your company chop (bearing your company's name) endorsed by the authorised signatory or signatories of the CCASS Investor Participant's stock account in the appropriate box.
- The signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** application form should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory or signatories (if applicable), CCASS Participant I.D. or other similar matters may render the application invalid.

(i) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each application form in the box marked "For nominees" an identification number for each beneficial owner.

6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each application form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicant(s)) at your own risk at the address stated in the application form.

If the Offer Price as finally determined is less than HK$2.75 per Share, appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed "Refund of your money – additional information" under the section headed "Terms and conditions of the Public Offer" in this prospectus.

7. HOW TO APPLY THROUGH WHITE FORM eIPO

(a) If you are an individual and meet the criteria set out above in "2. Which application method you should use", you may apply through **White Form eIPO** by submitting an application to the White Form eIPO Service Provider through the designated website of the White Form eIPO Service Provider at www.eipo.com.hk. If you apply through **White Form eIPO** the Shares will be issued in your own name.

(b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the White Form eIPO Service Provider and may not be submitted to the Company.

(c) In addition to the terms and conditions set out in this prospectus, the White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(d) By submitting an application to the White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the White Form eIPO Service Provider to transfer the details of your application to the Company and the registrars.

(e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Public Offer Shares. Each electronic application instruction in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website www.eipo.com.hk.

(f) You should give electronic application instructions through **White Form eIPO** at the times set out in paragraph (b) of the section headed "4. When to apply for the Public Offer Shares" above.

(g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 7 June 2007, or such later time as described under the section headed "Effects of bad weather conditions on the opening of the application lists" in the section headed "4. When to apply for the Public Offer Shares" above, the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website www.eipo.com.hk.**

(h) **Warning:** The application for Public Offer Shares through the **White Form eIPO** service is only a facility provided by the White Form eIPO Service Provider to public investors. **The Company, the Directors, the Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to the Company or that you will be allotted any Public Offer Shares.**

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Public Offer to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** application form. However, once you have submitted electronic application instructions and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** application form. Please see the paragraph headed "4. How many applications you can make" in the section headed "Terms and conditions of the Public Offer" in this prospectus.

8. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) CCASS Participants may give electronic application instructions via CCASS to HKSCC to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

(b) If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at *https://ip.ccass.com* (according to the procedures contained in "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for you if you come to:

Customer Service Centre of HKSCC
2nd Floor Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

(c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for Public Offer Shares.

(d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Company and the Hong Kong Branch Share Registrar.

(e) You may give electronic application instructions in respect of a minimum of 2,000 Public Offer Shares. Each electronic application instruction in respect of more than 2,000 Public Offer Shares must be in one of the multiples set out in the table in the application form.

(f) Where a **WHITE** application form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Public Offer Shares:

(i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** application form or this prospectus; and

(ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (c) in the paragraph headed "Effect of making any application" under the section headed "Terms and conditions of the Public Offer" in this prospectus.

(g) For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

(h) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.

(i) For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given shall be treated as an applicant.

(j) The paragraph headed "Personal data" under the section headed "Terms and conditions of the Public Offer" in this prospectus applies to any personal data held by the Sponsor, the Company and the Hong Kong Branch Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

Application for Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, the Global Coordinator and any parties involved in the Share Offer take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

(a) submit the WHITE or YELLOW application form (as appropriate); or

(b) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 7 June 2007 or such later time as described under the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" above.

9. RESULTS OF ALLOCATIONS

The results of allocations of the Public Offer Shares under the Public Offer, including applications made under **WHITE** and **YELLOW** application forms and by giving electronic application instructions to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Public Offer Shares successfully applied for, are expected to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and will be made available at the times and dates and in the manner specified below:

- results of allocations for the Public Offer will be available from the Company's results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Thursday, 14 June 2007 to 12:00 midnight on Wednesday, 20 June 2007. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;

- results of allocations will be available from the Company's Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Thursday, 14 June 2007 to Sunday, 17 June 2007;

- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 14 June 2007 to Saturday, 16 June 2007 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to apply for the Public Offer Shares – 3. Where to collect the application forms".

1. GENERAL

(a) If you apply for the Public Offer Shares in the Public Offer, you will be agreeing with the Company and the Global Coordinator as set out below.

(b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

(c) If you give electronic application instructions to the White Form eIPO Service Provider through the designated website at ww.eipo.com.hk, you will have authorised the White Form eIPO Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

(d) In this section, references to "you", "applicants", "joint applicants" and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC or by submitting an application to the White Form eIPO Service Provider through the designated website for the **White Form eIPO** service.

(e) Applicants should read this prospectus carefully, including other terms and conditions of the Public Offer, the paragraph headed "The Public Offer" under the section headed "Structure of the Share Offer" in this prospectus, the section headed "How to Apply for the Public Offer Shares" in this prospectus and the terms and conditions set out in the relevant application form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE PUBLIC OFFER SHARES

(a) You offer to purchase from the Company at the Offer Price the number of the Public Offer Shares indicated in your application form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant application form.

(b) For applicants using application forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your application form.

Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed "If your application for the Public Offer Shares is successful (in whole or in part)" and "Refund of your money – additional information" in this section.

(c) Any application may be rejected in whole or in part.

(d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

(a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Public Offer Shares, the level of applications under the Public Offer and the basis of allocations of the Public Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 14 June 2007.

(b) The results of allocations of the Public Offer Shares under the Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for, will be made available on 14 June 2007 in the manner described in the paragraph headed "Results of allocations" under the section headed "How to apply for the Public Offer Shares" in this prospectus.

(c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Share Offer are satisfied or the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure of the Share Offer" in this prospectus.

(e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a **nominee**, in which case you may make an application as a nominee by: (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one application in your own name on behalf of different beneficial owners. In the box on the application form marked "For nominees" you must include:

  – an account number; or

  – some other identification code

  for **each** beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being for your benefit.

  Otherwise, multiple applications are liable to be rejected.

(b) **All** of your applications for Public Offer Shares (including the part of the application made by HKSCC Nominees acting on electronic application instructions) will be rejected as multiple applications if you, or you and your joint applicants together or any of your joint applicants:

- make more than one application on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) or to the White Form eIPO Service Provider via the **White Form eIPO** service; or

- apply on one **WHITE** application form and one **YELLOW** application form or on one **WHITE** or **YELLOW** application form and give electronic application instructions to HKSCC via CCASS or to the White Form eIPO Service Provider; or

- apply on one **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) or to the White Form eIPO Service Provider via the **White Form eIPO** service for more than 100% of the Public Offer Shares being initially available in either pool A or pool B to the public as referred to in the paragraph headed "Offer mechanism – basis of allocation of Shares" under the section headed "Structure of the Share Offer" in this prospectus; or

- apply for or take up any Shares under the International Placing or otherwise participate in the International Placing or indicate an interest for any International Placing Shares.

(c) **All** of your applications for Public Offer Shares are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

(i) the principal business of that company is dealing in securities; and

(ii) you exercise statutory control over that company, then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

(i) control the composition of the board of directors of that company; or

(ii) control more than half of the voting power of that company; or

(iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

(d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the White Form eIPO Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions to the White Form eIPO Service Provider through the designated website and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

5. EFFECT OF MAKING ANY APPLICATION

(a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee, among other things:

- **instruct** and **authorise** the Company and/or the Global Coordinator (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary

to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the memorandum and articles of association of the Company and otherwise to give effect to the arrangements described in this prospectus and the relevant application form;

- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares to be allocated to you, and as required by the memorandum and articles of association of the Company;

- **represent** and **warrant** that you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the application form (as defined in Regulation S) and are not a U.S. person described under the U.S. Securities Act;

- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus and the relevant application form in making your application, and not on any other information or representation concerning the Company;

- **agree** that neither the Company, the Global Coordinator and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer will have any liability for any such other information or representations;

- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;

- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider via **White Form eIPO** service;

- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider via **White Form eIPO** service and that you are duly authorised to sign the application form or to give electronic application instruction as that other person's agent or to the White Form eIPO Service Provider via **White Form eIPO** service;

- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offer made available by the Company;

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares, nor otherwise participate in the International Placing;

- **warrant** the truth and accuracy of the information contained in your application;

- **agree** to disclose to the Company, the Global Coordinator and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- **undertake** and **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

- **authorise** the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the application form by ordinary post at your own risk to the address stated on your application form (except that you have indicated in your application form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person in accordance with the procedures prescribed in the application form);

- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, the Global Coordinator and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;

- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Law and the memorandum and articles of association of the Company;

- **agree** with the Company, each shareholder, director, manager and officer of the Company, and the Company acting for itself and for each director, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the memorandum and articles of association of the Company or any rights or obligations conferred or imposed by the Companies Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the memorandum and articles of association of the Company, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- **agree** with the Company and each shareholder of the Company that Shares are freely transferable by the holders thereof;

- **authorise** the Company to enter into a contract on behalf of you with each director and officer of the Company whereby such directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the memorandum and articles of association of the Company;

- **confirm** that you are aware of the restrictions on Share Offer of the Public Offer Shares described in this prospectus; and

- **understand** that these declarations and representations will be relied upon by the Company and the Global Coordinator in deciding whether or not to allocate any Public Offer Shares in response to your application.

(b) If you apply for the Public Offer Shares using a **YELLOW** application form, in addition to the confirmations and agreements referred to in (a) above you **agree** that

- any Public Offer Shares allocated to you shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the application form;

- each of HKSCC and HKSCC Nominees reserves the right (1) **not to accept** any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees or **not to accept** such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Public Offer Shares at your own risk to the address on your application form by ordinary post **or to make available the same for your collection**;

- each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;

- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the application forms;

- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

(c) In addition, by giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:

- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

- **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK$2.75 per Public Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;

- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf the following:

  – **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted electronic application instructions on your behalf;

  – **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given electronic application instructions or any lesser number;

  – **undertake** and **confirm** that you have not applied for or taken up any Offer Shares under the Share Offer nor otherwise participated in the Share Offer;

  – (if the electronic application instructions are given for your own benefit) **declare** that only one set of electronic application instructions has been given for your benefit;

  – (if you are an agent for another person) **declare** that you have given only one set of electronic application instructions for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;

– **understand** that the above declaration will be relied upon by the Company and the Global Coordinator in deciding whether or not to make any allocation of the Public Offer Shares in respect of the electronic application instructions given by you and that you may be prosecuted if you make a false declaration;

– **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your electronic application instructions and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;

– **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

– **confirm** that you have only relied on the information and representations in this prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions on your behalf;

– **agree** that the Company, the Global Coordinator and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer are liable only for the information and representations contained in this prospectus;

– **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

– **agree** to disclose your personal data to the Global Coordinator, the Company, the Hong Kong Branch Share Registrar, the Receiving Banker, their respective agents and advisers together with any information about you which they require;

– **agree** that any application made by HKSCC Nominees on behalf of you pursuant to electronic application instructions given by you is irrevocable before Wednesday, 4 July 2007, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Wednesday, 4 July 2007, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

– **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your electronic application instructions can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by the Company; and

– **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Public Offer Shares.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated Public Offer Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an application form or submitting electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked before Wednesday, 4 July 2007. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Wednesday, 4 July 2007 except by means of one of the procedures referred to in this prospectus.

However, your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of Public Offer Shares is void:

Your allocation of Public Offer Shares (and the allocation to HKSCC Nominees, as the case may be) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If the Company, the Global Coordinator or their respective agents exercise their discretion to reject your application:

The Company, the Global Coordinator or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(d) If:

- your application is a multiple or a suspected multiple application;
- your application form is not completed correctly in accordance with the instructions;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Shares under the International Placing;
- your application is for more than 100% of either pool A or pool B of the Public Offer Shares initially available for subscription to the public;
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof or otherwise;
- the Company is of the view that by accepting your application, it would violate applicable securities laws, rules or regulations or other laws, rules or regulations of the jurisdiction, in which your application is received or your address on the application form is located.

7. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

The Company will not issue temporary documents of title. No receipt will be issued for application monies received.

(a) If you are applying using a WHITE application form and you elect to receive any share certificate(s) in your name:

- Refund cheques for these applicants are expected to be despatched on or before Thursday, 14 June 2007 to the same address as that for share certificate(s), being the address specified in the relevant application form.

- Applicants who apply on **WHITE** application forms and have indicated in their application forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong Branch Share Registrar may collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 June 2007 or any other date notified by the Company in the newspaper as the date of despatch of refund cheques, after which your refund cheque will be posted to you by ordinary post and at your own risk to the address stated on the application form.

- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. You must show your identification documents (which must be acceptable to Computershare Hong Kong Investor Services Limited) to collect your refund cheque. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Their authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong Branch Share Registrar.

- Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms.

(b) If: (i) you are applying on a YELLOW application form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the application form or electronically, as the case may be), at the close of business on Thursday, 14 June 2007 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW application form:**

  For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW application form:**

  The Company expects to make available the results of the Public Offer, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "Results of allocations" under the section headed "How to apply for the Public Offer Shares" in this prospectus, on Thursday, 14 June 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 June 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- **If you have given electronic application instructions to HKSCC:**

  The Company expects to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the paragraph headed "Results of allocations" under the section headed "How to apply for the Public Offer Shares" in this prospectus, on Thursday, 14 June 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 June 2007 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

  You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- **If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:**

  You can also check the number of the Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 14 June 2007. HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 June 2007, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/refund cheques.

If you do not collect your Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the White Form eIPO Service Provider on Thursday, 14 June 2007 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the White Form eIPO Service Provider set out below in "9. Additional information for applicants applying through **White Form eIPO**".

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY – ADDITIONAL INFORMATION

(a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:

- your application is not successful, in which case the Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;

- your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;

- the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and

- the conditions of Share Offer are not fulfilled in accordance with the paragraph headed "Conditions" under the section headed "Structure of the Share Offer" in this prospectus.

(b) If you apply on a **YELLOW** application form, you may collect your refund cheque (if any) in person from the Hong Kong Branch Share Registrar on Thursday, 14 June 2007. The procedure for collection of refund cheques for **YELLOW** application form applicants is the same as that for **WHITE** application form applicants set out in sub-paragraph (a) of the paragraph headed "If your application for the Public Offer Shares is successful (in whole or in part)" in this section.

(c) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Thursday, 14 June 2007.

(d) All refunds by cheque will be crossed "Account Payee Only", and made out to you, or if you are a joint applicant, to the first-named applicant on your application form.

(e) Refund cheques are expected to be despatched on Thursday, 14 June 2007. The Company intends to make special efforts to avoid undue delays in refunding money. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING THROUGH WHITE FORM eIPO

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** service to the White Form elPO Service Provider through the designated website will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the White Form eIPO Service Provider, the White Form elPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the White Form eIPO Service Provider on the designated website www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in "8. Refund of your money – additional information" shall be made pursuant to the arrangements described above in "7. If your application for Public Offer Shares is successful (in whole or in part) – (c) If you apply through **White Form eIPO**".

10. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the "Ordinance") came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares of the policies and practices of the Company and the Hong Kong Branch Share Registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Hong Kong Branch Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong Branch Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or the despatch of or encashment of refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the application forms and this prospectus and announcing results of allocations of the Public Offer Shares;

- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Branch Share Registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by the Company and the Hong Kong Branch Share Registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Hong Kong Branch Share Registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and Receiving Bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Hong Kong Branch Share Registrar in connection with the operation of their businesses;

- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and

- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an application form or by giving electronic application instructions to HKSCC, you agree to all of the above.

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong Branch Share Registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

11. MISCELLANEOUS

(a) Commencement of dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence at 9:30 a.m. on Friday, 15 June 2007.

- The Shares will be traded in board lots of 2,000 Shares.

- Any Share certificates in respect of Public Offer Shares collected or received by successful applicants will not be valid if the Share Offer is terminated in accordance with the terms of the Public Offer Underwriting Agreement.

(b) The Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants to the Company, Deloitte Touche Tohmatsu, Certified Public Accountants.

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

4 June 2007

The Directors
The United Laboratories International Holdings Limited
The Hongkong and Shanghai Banking Corporation Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 4 June 2007 (the "Prospectus").

The Company was incorporated and registered in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 6 March 2006. The Company has not carried out business since its incorporation. Pursuant to a group reorganisation as more fully explained in the paragraph headed "Corporate Reorganisation" in Appendix V to the Prospectus (the "Reorganisation"), the Company became the holding company of the Group on 25 May 2007.

As at the date of this report, the Company has the following subsidiaries:

Name of subsidiary	**Place and date of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest held by the Company** *(Note 1)*	**Principal activities and place of operation**
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands ("BVI") 10 October 1995	US$50,000	100%	Investment holding Hong Kong
The United Laboratories (Hong Kong) Group Limited	BVI 18 August 1992	US$50,000	100%	Investment holding Hong Kong
Bowden Trading Limited	Samoa 21 May 1996	US$1,000	100%	Trademark holding Hong Kong

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note 1)*	Principal activities and place of operation
The United Laboratories, Limited	Hong Kong 25 May 1976	HK$15,000,000	100%	Investment holding and manufacturing and sale of pharmaceutical products Hong Kong
Team Crown Trading Limited	Hong Kong 30 May 1995	HK$10,000	100%	Trading of pharmaceutical products Hong Kong
Bear World Limited	Hong Kong 1 February 1996	HK$10,000	100%	Investment holding Hong Kong
Team Profit Management Limited	Hong Kong 15 February 1996	HK$10,000	100%	Investment holding Hong Kong
Lynbond International Limited	Hong Kong 5 November 1999	HK$10,000	100%	Inactive
聯邦制藥(成都)有限公司 ("United Laboratories (Chengdu) Co. Ltd") *(Note 2)*	The People's Republic of China ("PRC") 11 June 2003	RMB250,000,000	100%	Manufacturing and sale of pharmaceutical intermediate products PRC
珠海康知樂醫藥有限公司 ("Zhuhai Kangzhile Pharmaceutical Company Limited") (formerly known as 中山康知樂醫藥有限公司) *(Note 3)*	PRC 10 June 1999	RMB250,000,000	100%	Provision of consultancy service to Group companies PRC
珠海聯邦制藥股份有限公司 ("Zhuhai United Laboratories Co. Ltd.") *(Note 4)*	PRC 3 July 1993	RMB254,600,000	100%	Manufacturing and sale of pharmaceutical products PRC

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note 1)*	Principal activities and place of operation
珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.") *(Note 2)*	PRC 24 December 2001	RMB12,825,182	100%	Manufacturing and sale of pharmaceutical products PRC
珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited") *(Note 3)*	PRC 23 December 2003	RMB1,000,000	100%	Trading of pharmaceutical products PRC
廣東開平金億膠囊有限公司 ("Guangdong Kaiping Kingly Capsule Co. Limited") *(Note 2)*	PRC 23 September 1997	RMB16,450,503	100%	Manufacturing and sale of soft capsules casings PRC
中山金億食品有限公司 ("Zhongshan Jinyi Food Co. Ltd.") *(Note 2)*	PRC 24 July 1998	RMB8,014,500	100%	Investment holding PRC
珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited") (formerly known as 珠海市金德福有限公司) *(Note 3)*	PRC 16 May 2001	RMB15,000,000	100%	Investment holding PRC

Notes:

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

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

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

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

All companies comprising the Group have adopted 31 December as their financial year end date.

We have audited the financial statements of those companies incorporated in Hong Kong for the Relevant Periods.

No audited financial statements have been prepared for those companies incorporated in the BVI and Samoa because there are no statutory requirements in the BVI and Samoa to do so.

The statutory annual financial statements of the following entities established in the PRC were prepared in accordance with the relevant accounting rules and financial regulations applicable to the enterprises established in the PRC:

Company	From	To	Auditors
聯邦制藥(成都)有限公司 ("United Laboratories (Chengdu) Co. Ltd")	1 January 2004	31 December 2005	四川同德會計師事務所有限公司 ("Sichuan Tongde Certified Public Accountants Co., Ltd")
	1 January 2006	31 December 2006	四川中砝會計師事務所 ("Sichuan Zhongfa Certified Public Accountants")
珠海康知樂醫藥有限公司 ("Zhuhai Kangzhile Pharmaceutical Company Limited")	1 January 2004	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")
珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai")	1 January 2004	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")
珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.")	1 January 2004 *(Note)*	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")
珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited")	1 January 2005 *(Note)*	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")
廣東開平金億膠囊有限公司 ("Guangdong Kaiping Ringly Capsule Co. Limited")	1 January 2004	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")
中山金億食品有限公司 ("Zhong Shan Jinyi Food Co. Ltd.")	1 January 2004	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")
珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited")	1 January 2006 *(Note)*	31 December 2006	廣東恒信德律會計師事務所有限公司 ("Guang Dong Hengxin Delu Certified Public Accountants Co., Ltd")

Note: The Group acquired 100% of the issued share capital of 珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.") on 28 April 2004, 珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited") on 1 January 2005 and 珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited") on 13 January 2006. Details of acquisition of subsidiaries are set out in note 32 to the Financial Information.

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried on any business other than the transactions related to the Reorganisation. For the purpose of this report, we have reviewed all relevant transactions undertaken by the Company since its incorporation to 31 December 2006 and carried out such procedures as we considered necessary for inclusion of financial information relating to the Company in this report.

For the purpose of this report, the directors of The United Laboratories (Hong Kong) Holding Limited, the then holding company, have prepared consolidated financial statements of The United Laboratories (Hong Kong) Holding Limited and its subsidiaries for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certificate Public Accountants ("HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of Section I below, to the Financial Information. No adjustments are considered necessary to adjust the Underlying Financial Statements for the Relevant Periods for the preparation of the Financial Information.

The directors of The United Laboratories (Hong Kong) Holding Limited are responsible for preparing the Underlying Financial Statements. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section I below, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2004, 2005, 2006 and of the combined results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

Combined income statements

	Notes	Year ended 31 December 2004	2005	2006
		HK$'000	*HK$'000*	*HK$'000*
Turnover	*5*	1,200,104	1,720,442	2,080,479
Cost of sales		(801,556)	(1,120,682)	(1,344,180)
Gross profit		398,548	599,760	736,299
Other income	*6*	35,508	12,867	9,918
Selling and distribution costs		(125,300)	(261,167)	(284,093)
Administrative expenses		(93,952)	(104,938)	(122,956)
Other expenses		(14,726)	(15,356)	(37,791)
Finance costs	*7*	(18,684)	(47,353)	(85,485)
Share of results of an associate		(5,118)	(8,342)	(2,726)
Gain on disposal of an associate		–	–	8,612
Profit before taxation		176,276	175,471	221,778
Taxation	*9*	(26,917)	(42,526)	(47,940)
Profit for the year	*10*	149,359	132,945	173,838
Attributable to:				
Equity holders of the Company		132,111	116,566	173,838
Minority interests		17,248	16,379	–
		149,359	132,945	173,838
Earnings per share *(HK$)*	*12*	0.15	0.13	0.19

Combined balance sheets

	Notes	At 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000
Non-current assets				
Property, plant and equipment	*13*	1,327,932	1,699,141	1,640,077
Prepaid lease payments	*14*	95,564	80,961	80,392
Goodwill	*15*	730	2,901	3,001
Intangible assets	*16*	7,966	6,422	3,663
Deposits for acquisition of property, plant and machinery		23,902	24,247	7,454
Interest in an associate	*17*	10,865	2,726	–
Loan receivable	*18*	–	2,871	–
Available for sale investment	*19*	–	–	–
		1,466,959	1,819,269	1,734,587
Current assets				
Inventories	*20*	156,675	274,701	344,115
Trade and bills receivables, deposits and prepayments	*21*	402,801	631,642	798,387
Loan receivable	*18*	–	–	1,779
Prepaid lease payments	*14*	2,115	1,741	1,888
Amount due from a former minority shareholder of a subsidiary	*22*	4,626	5,122	–
Amount due from a director	*23*	342,151	319,946	515,673
Pledged bank deposits	*24*	5,182	129,771	216,565
Bank balances and cash	*24*	106,399	149,041	99,226
		1,019,949	1,511,964	1,977,633
Current liabilities				
Trade and bills payables and accrued charges	*25*	440,994	833,957	894,309
Tax payables		31,993	29,050	24,100
Obligations under finance leases	*26*	592	–	–
Borrowings	*27*	532,101	901,079	1,047,460
Trust receipt loans	*28*	4,325	5,842	701
Bank overdraft, unsecured	*24*	94	1,906	5,956
		1,010,099	1,771,834	1,972,526
Net current assets (liabilities)		9,850	(259,870)	5,107
Total assets less current liabilities		1,476,809	1,559,399	1,739,694
Non-current liabilities				
Borrowings	*27*	373,284	251,569	252,129
Loan from a director	*29*	111,291	166,301	160,100
Deferred taxation	*30*	16,837	16,522	15,870
		501,412	434,392	428,099
		975,397	1,125,007	1,311,595
Capital and reserves				
Paid-up capital	*31*	390	390	390
Reserves		880,722	1,012,575	1,311,205
Equity attributable to equity holders		881,112	1,012,965	1,311,595
Minority interests		94,285	112,042	–
Total equity		975,397	1,125,007	1,311,595

Combined statements of changes in equity

	Attributable to shareholders of the Company							
	Paid-up capital *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 2004	390	208,792	122,451	1,253	416,107	748,993	77,037	826,030
Exchange differences arising on acquisition of a subsidiary and total income recognised directly in equity	–	–	–	8	–	8	–	8
Profit for the year	–	–	–	–	132,111	132,111	17,248	149,359
Total recognised income and expense for the year	–	–	–	8	132,111	132,119	17,248	149,367
Transferred to capital reserve	–	–	30,421	–	(30,421)	–	–	–
At 31 December 2004	390	208,792	152,872	1,261	517,797	881,112	94,285	975,397
Exchange differences arising on translation of foreign operations	–	–	–	15,490	–	15,490	1,378	16,868
Share of post acquisition reserve of an associate	–	–	–	(203)	–	(203)	–	(203)
Total income recognised directly in equity	–	–	–	15,287	–	15,287	1,378	16,665
Profit for the year	–	–	–	–	116,566	116,566	16,379	132,945
Total recognised income and expense for the year	–	–	–	15,287	116,566	131,853	17,757	149,610
Transferred to capital reserve	–	–	37,654	–	(37,654)	–	–	–
At 31 December 2005	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 and expense 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

Capital reserve represents 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.

Combined cash flow statements

	Note	Year ended 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000
Profit before taxation		176,276	175,471	221,778
Adjustments for:				
(Reversal of) allowance for inventories		(201)	3,433	2,243
Allowance for doubtful debts		3,709	6,260	1,318
Amortisation of intangible assets		1,604	2,194	2,981
Amortisation of prepaid lease payments		1,986	1,727	2,701
Depreciation of property, plant and equipment		83,685	110,958	188,315
Share of results of an associate		5,118	8,342	2,726
Gain on disposal of an associate		–	–	(8,612)
Net loss (gain) on disposal of property, plant and equipment		3,960	1,039	(110)
Finance costs		18,684	47,353	85,485
Bank interest income		(1,062)	(1,528)	(2,971)
Operating cash flows before movements in working capital		293,759	355,249	495,854
Increase in inventories		(19,773)	(86,796)	(62,308)
Increase in trade and bills receivables, deposits and prepayments		(75,010)	(46,251)	(130,732)
Increase in trade and bills payables and accrued charges		84,057	88,539	110,495
Cash generated from operations		283,033	310,741	413,309
Tax paid		(36,699)	(46,419)	(54,311)
Interest paid		(28,275)	(62,756)	(73,527)
Net cash from operating activities		218,059	201,566	285,471
Investing activities				
Payments for purchases of property, plant and equipment		(508,398)	(396,249)	(146,946)
Proceeds on disposal of property, plant and equipment		5,357	8,211	212
Government grants received		–	20,563	2,663
Increase in prepaid lease payments		(10,961)	(3,190)	(281)
Proceeds on disposal of prepaid lease payments		–	15,125	–
Acquisition of intangible assets		(5,471)	(536)	–
Increase in pledged bank deposits		–	(124,589)	(82,436)
Repayment of advance to a director		–	24,536	–
Advance to a director		(147,018)	–	(184,529)
(Advance to) repayment from loan receivable		–	(2,871)	1,092
Acquisition of subsidiaries	*32*	(1,415)	15,070	(13,800)
Acquisition of an additional interest in a subsidiary		–	–	(31,095)
Proceeds on disposal of an associate		–	–	8,612
(Advance to) repayment from a former minority shareholder of a subsidiary		(4)	(496)	5,122
Interest received		1,062	1,528	2,971
Net cash used in investing activities		(666,848)	(442,898)	(438,415)

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Financing activities			
New borrowings raised	810,581	608,504	1,052,652
New loan from a director	–	46,000	–
Repayment of borrowings	(442,377)	(376,852)	(932,889)
Repayment of obligations under finance leases	(2,951)	(592)	–
Repayment of loan from a director	(45,998)	–	(18,159)
(Decrease) increase in trust receipt loans	(3,195)	1,517	(5,141)
Net cash from financing activities	316,060	278,577	96,463
Net (decrease) increase in cash and cash equivalents	(132,729)	37,245	(56,481)
Effect of foreign exchange rate changes	8	3,585	2,616
Cash and cash equivalents at beginning of the year	239,026	106,305	147,135
Cash and cash equivalents at end of the year	106,305	147,135	93,270
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	106,399	149,041	99,226
Bank overdraft, unsecured	(94)	(1,906)	(5,956)
	106,305	147,135	93,270

Notes to the Financial Information

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. 46% and 48% equity interest of 珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai") are held by 珠海康知樂醫藥有限公司 ("Zhuhai Kongzhile Pharmaceutical Company Limited") and a subsidiary of the Company respectively throughout the Relevant Periods. 珠海康知樂醫藥有限公司 ("Zhuhai Kongzhile Pharmaceutical Company Limited") and 珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai") are considered to be companies under common control throughout the Relevant Periods as the controlling shareholder of 珠海康知樂醫藥有限公司 ("Zhuhai Kongzhile Pharmaceutical Company Limited") is a close family member of Mr Choy Kam Lok, a director and a beneficial owner of the Company who governed the financial and operating policies of the Group prior to and after the Reorganisation. For the purpose of presenting the financial positions, financial results and cash flows of the Group in this report, these companies are deemed to be subsidiaries of the Company throughout the Relevant Periods. Accordingly, the Financial Information of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting.

The combined income statements, combined statements of changes in equity and combined cash flow statements of the companies comprising the Group are presented as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where this is a shorter period, except for the following acquisitions and struck off of subsidiaries, which are combined since the effective date of acquisitions and up to the effective date of struck off.

Name of company	Percentage of equity interest acquired	Effective date of acquisition
珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.")	100%	28 April 2004
珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited")	100%	1 January 2005
珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited")	100%	13 January 2006
珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai")	3%*	13 January 2006
珠海康知樂醫藥有限公司 ("Zhuhai Kongzhile Pharmaceutical Company Limited")	13%	20 January 2006
珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai")	6%*	20 January 2006

* An equity interest of 3% and 46% in 珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai") are held by 珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited") and 珠海康知樂醫藥有限公司 ("Zhuhai Kangzhile Pharmaceutical Company Limited") respectively, accordingly, an additional effective interest of 3% and 6% in 珠海聯邦制藥股份有限公司 ("The United Laboratories Limited Zhuhai") were acquired at the respective effective date of acquisition of interest in 珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited") and 珠海康知樂醫藥有限公司 ("Zhuhai Kangzhile Pharmaceutical Company Limited").

Manstrong Group Limited ("Manstrong"), a subsidiary of the Group, was struck off with effect from 1 February 2006. The assets and liabilities of Manstrong and its result have been accounted for in the Financial Information up to the effective date of struck off.

The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 have been prepared to include the assets and liabilities of the companies comprising the Group as on each balance sheet date on the basis of the equity interest of the combining entities attributable to the Company on each of the balance sheet date.

For the preparation of the Financial Information, the Group applied Accounting Guideline 5 "Merger Accounting under Common Control Combination" issued by the HKICPA.

2. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with these accounting policies which conform with HKFRSs issued by the HKICPA.

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has early adopted all the new HKFRSs throughout the Relevant Periods.

However, the Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment and interpretations will have no material impact on the Financial Information of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[8]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – INT 12	Service concession arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 March 2006.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.
[5] Effective for annual periods beginning on or after 1 November 2006.
[6] Effective for annual periods beginning on or after 1 March 2007.
[7] Effective for annual periods beginning on or after 1 January 2008.
[8] Effective for annual periods beginning on or after 1 January 2009.

Basis of combination (other than business combination involving entities under common control)

The combined financial information incorporates the financial information of the companies now comprising the Group.

Acquisition of subsidiaries during the Relevant Periods are accounted for from the effective date of acquisition by the purchase method of accounting.

All significant intra-group transactions and balances between group enterprises are eliminated on combination.

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 combined financial information 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 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 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 combined 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 combined financial information 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.

Goodwill

Goodwill arising on the acquisition of a subsidiary 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 subsidiary recognised at the date of acquisition. 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 combination. 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 disposal of a subsidiary, the attributable amount of goodwill 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 shall be accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss shall be recognised in profit or loss on such changes. The carrying amount of the non-controlling interest shall be 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, shall be recognised directly in equity and attributed to equity holders of the Parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the entity which is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of the associates are incorporated in the financial statements using the equity method of accounting. Under the equity method, investment in the associate is carried in the balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Sales of goods are recognised when the goods are delivered and title has passed.

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

Management service income is recognised when services are provided.

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.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less 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%

Assets under construction are stated at cost less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences where the assets are ready for their immediate use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, whether shorter, the term of the relevant lease.

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.

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

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.

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.

Impairment testing on intangible assets

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

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 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

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets 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 loan receivable, trade and bills receivables, amount due from a former minority shareholder of a subsidiary, amount due from a director, pledged bank deposits and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there 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 the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. 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. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is 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. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and bills payables, obligations under finance leases, borrowings, trust receipt loans and loan from a director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the group entity are recorded at the proceeds received, net of direct issue 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 the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the combined balance sheet (i.e. 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 received or receivable 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.

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 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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense on a straight-line basis over the lease term.

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/period. 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/periods 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.

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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the combined financial information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (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.

3. 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 change in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

Estimation allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and other 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 judgment and estimates. Where the expectation on the recoverability of trade 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 been changed.

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 judgment and estimates.

4. FINANCIAL INSTRUMENTS

4A. Financial risk management objectives and policies

The Group's major financial instruments include loan receivables, trade and bills receivables, amount due from a former minority shareholder of a subsidiary, amount due from a director, pledged bank deposits, bank balance and cash, trade and bills payables, borrowings, trust receipt loans, obligations under finance leases, 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 management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group operates mainly in the PRC. Most of the Group's assets and liabilities are denominated in Renminbi. The Group has no significant currency risk. The Group currently does not have a formal currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's interest rate risk relates primarily to bank balances, pledged bank deposits, borrowings, and trust receipts loans and bank overdraft which are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. However, the management monitors the interest rate exposure and considers hedging significant interest rate exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet dates in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. 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 Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

Certain of the Group's products are subject to price ceilings set by the PRC national and provincial regulators. If the Group's cost of production of any such products were to exceed relevant price ceilings, the Group will apply for governmental approval for the retail price of its finished products to be set above their prescribed retail ceiling prices, known as individual pricing, which can enable the Group to sell its finished products to distributors at higher prices than it would have been without the approval for individual pricing.

Liquidity risk

The objective of the Group is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings. In addition, sufficient banking facilities have been put in place for general funding purposes.

Loan covenants breached

In respect of the bank loans of a total carrying amount of HK$183,267,000 outstanding at 31 December 2005 and HK$113,133,000 as at 31 December 2006, the Group had breached certain financial covenants (the "financial covenants") contained in the loan agreement. The financial covenants require that the gearing of the group, comprising The United Laboratories (Hong Kong) Holding Limited and its subsidiaries, should not exceed a specified ratio and that the pledge of certain assets is not allowed. On discovery of the breach, the directors of the Company informed the bank and commenced renegotiation of the terms of the loans. Up to 31 December 2005 and 31 December 2006, those negotiations, which might result in a waiver by the bank of the covenants, had not been concluded. Accordingly, the portion of loans of HK$134,533,000 and HK$42,238,000 repayable after one year from 31 December 2005 and 31 December 2006 respectively were classified as current liabilities in the balance sheet as at respective dates. Subsequent to 31 December 2005 and 31 December 2006 respectively, the bank has agreed to waive for strictly compliance of the financial covenants.

4B. Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial information approximate their fair values, except for available for sale investment, which was recorded at cost less impairment.

5. 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.

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods	1,190,642	1,692,384	2,066,276
Sub-contracting service income	9,462	28,058	14,203
	1,200,104	1,720,442	2,080,479

Business segments

The Group is currently organised into three revenue streams – (i) sale of intermediate products ("Intermediate products" for the purpose of this note 5); (ii) sale of bulk medicine and subcontracting income on bulk medicine (together "Bulk medicine" for the purpose of this note 5); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products" for the purpose of this note 5). 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 2004

	Intermediate products	**Bulk medicine**	**Finished products**	**Elimination**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER					
External sales	–	639,897	560,207	–	1,200,104
Inter-segment sales	44,980	95,595	–	(140,575)	–
	44,980	735,492	560,207	(140,575)	1,200,104
RESULT					
Segment result	(51,490)	85,832	167,653		201,995
Unallocated other income					1,062
Unallocated corporate expenses					(2,979)
Finance costs					(18,684)
Share of results of an associate	(5,118)				(5,118)
Profit before taxation					176,276
Taxation					(26,917)
Profit for the year					149,359

Balance sheet

	Intermediate products *HK$'000*	Bulk medicine *HK$'000*	Finished products *HK$'000*	Combined *HK$'000*
ASSETS				
Segment assets	922,795	546,874	548,016	2,017,685
Interest in an associate	10,865			10,865
Unallocated corporate assets				458,358
Consolidated total assets				2,486,908
LIABILITIES				
Segment liabilities	65,221	306,849	68,924	440,994
Unallocated corporate liabilities				1,070,517
Consolidated total liabilities				1,511,511

Other information

	Intermediate products *HK$'000*	Bulk medicine *HK$'000*	Finished products *HK$'000*	Combined *HK$'000*
Capital expenditure	714,451	10,380	15,017	739,848
Depreciation and amortisation	25,090	18,255	43,930	87,275
Loss on disposal of property, plant and equipment	–	–	3,960	3,960

For the year ended 31 December 2005

	Intermediate products *HK$'000*	Bulk medicine *HK$'000*	Finished products *HK$'000*	Elimination *HK$'000*	Combined *HK$'000*
TURNOVER					
External sales	53,903	896,447	770,092	–	1,720,442
Inter-segment sales	288,044	90,329	–	(378,373)	–
	341,947	986,776	770,092	(378,373)	1,720,442
RESULT					
Segment result	(52,116)	82,971	201,240		232,095
Unallocated other income					2,160
Unallocated corporate expenses					(3,089)
Finance costs					(47,353)
Share of results of an associate	(8,342)				(8,342)
Profit before taxation					175,471
Taxation					(42,526)
Profit for the year					132,945

Balance sheet

	Intermediate products	Bulk medicine	Finished products	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	1,311,242	776,504	634,010	2,721,756
Interest in an associate	2,726			2,726
Unallocated corporate assets				606,751
Consolidated total assets				3,331,233
LIABILITIES				
Segment liabilities	348,324	395,062	90,571	833,957
Unallocated corporate liabilities				1,372,269
Consolidated total liabilities				2,206,226

Other information

	Intermediate products	Bulk medicine	Finished products	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	354,723	116,843	21,654	493,220
Depreciation and amortisation	49,281	17,215	48,383	114,879
Loss on disposal of property, plant and equipment	–	–	1,039	1,039

For the year ended 31 December 2006

	Intermediate products	Bulk medicine	Finished products	Elimination	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

Balance sheet

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

Geographical segments

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

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Mainland China	1,081,514	1,508,093	1,634,673
Hong Kong	45,750	44,986	37,013
Europe	22,335	61,617	90,138
India	3,277	17,935	110,928
Other Asia regions	39,948	74,665	162,486
Other regions	7,280	13,146	45,241
	1,200,104	1,720,442	2,080,479

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

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		
	At 31 December			Year ended 31 December		
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mainland China	1,791,711	2,508,286	2,682,331	739,818	486,579	79,272
Hong Kong	225,974	213,470	196,646	30	6,641	5
	2,017,685	2,721,756	2,878,977	739,848	493,220	79,277

6. OTHER INCOME

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	1,062	1,528	2,971
Gain on disposals of property, plant and equipment	–	–	110
Net exchange gain	1,628	1,933	982
Management service income	24,141	–	–
Sale of raw materials	7,664	7,669	465
Subsidy income *(note 38)*	–	–	4,130
Sundry income	1,013	1,737	1,260
	35,508	12,867	9,918

7. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Finance charges on obligations under finance leases	127	10	–
Interest on loan from a director	6,736	9,010	11,958
Interest on bank borrowings wholly repayable within five years	28,148	62,746	73,527
Total borrowing costs	35,011	71,766	85,485
Less: Amount capitalised	(16,327)	(24,413)	–
	18,684	47,353	85,485

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

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

Year ended 31 December 2004

	Choy Kam Lok	Peng Wei	Leung Wing Hon	Choy Siu Chit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	789	214	519	391	1,913
Retirement benefit scheme contributions	12	10	12	10	44
	801	224	531	401	1,957
Total emoluments	801	224	531	401	1,957

Year ended 31 December 2005

	Choy Kam Lok	Peng Wei	Leung Wing Hon	Choy Siu Chit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	869	197	540	409	2,015
Retirement benefit scheme contributions	12	16	12	11	51
	881	213	552	420	2,066
Total emoluments	881	213	552	420	2,066

Year ended 31 December 2006

	Choy Kam Lok	Peng Wei	Leung Wing Hon	Choy Siu Chit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	1,896	212	506	845	3,459
Retirement benefit scheme contributions	12	65	12	12	101
	1,908	277	518	857	3,560
Total emoluments	1,908	277	518	857	3,560

No remuneration was paid or payable to the independent non-executive directors during the Relevant Periods.

(b) Employees

The five highest paid individuals of the Group for the year ended 31 December 2006 included two (2005 and 2004: three) directors of the Company, details of which are set out above. The emoluments of the remaining three (2005 and 2004: two) individuals are as follows:

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	1,107	1,104	2,199
Retirement benefits scheme contributions	24	24	36
	1,131	1,128	2,235

The emoluments of each of the three (2005 and 2004: two) individuals in the Group during each of the Relevant Periods were below HK$1,000,000.

During the Relevant Periods, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

9. TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
The charge comprises:			
Income tax			
Current tax			
Hong Kong	–	10,256	10,359
PRC	20,736	29,499	39,666
Under (over) provision in prior years			
PRC	755	3,086	(1,433)
	21,491	42,841	48,592
Deferred tax *(Note 30)*	5,426	(315)	(652)
	26,917	42,526	47,940

No Hong Kong Profits Tax is provided for the year ended 31 December 2004 as the assessable profits were fully absorbed by tax losses brought forward. For each of the years ended 31 December 2005 and 2006, Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit.

PRC 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税法》(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税法實施細則》(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 or are entitled to a preferential tax rate as the subsidiaries are regarded as high-technology companies.

The taxation charge for the Relevant Periods can be reconciled to the profit before taxation per the combined income statement as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	176,276	175,471	221,778
Tax at PRC Profits Tax rate of 33%	58,171	57,905	73,187
Tax effect of share of results of an associate	1,689	2,753	900
Tax effect of expenses not deductible for tax purpose *(Note)*	6,614	7,738	14,757
Tax effect of income not taxable for tax purpose	(6)	(780)	(3,626)
Under (over) provision in prior years	755	3,086	(1,433)
Utilisation of tax losses previously not recognised	(106)	(24)	–
Tax effect of tax losses not recognised	16,324	22,297	1,156
Tax effect of deferred tax assets not recognised	2,370	10,420	15,871
Effect of tax exemptions granted to the PRC subsidiaries	(42,780)	(39,072)	(32,426)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(15,275)	(22,199)	(21,829)
Others	(839)	402	1,383
Taxation for the Relevant Periods	26,917	42,526	47,940

Note: Expenses not deductible for tax purpose mainly include expenses with payment receipts but no invoices for tax deduction claim, professional fees incurred in connection with proposed initial public offering on the Main Board of the Stock Exchange of Hong Kong Limited, loss of inventories, non-deductible interest expenses and other non-deductible expenses such as entertainments, staff costs which exceeds the prescribed amount and donation.

10. PROFIT FOR THE YEAR

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Profit for the year has been arrived at after charging (crediting):			
(Reversal of) allowances for inventories	(201)	3,433	2,243
Allowance for doubtful debts	3,709	6,260	1,318
Auditors' remuneration	1,420	1,702	1,880
Depreciation and amortisation			
Depreciation of property, plant and equipment	83,685	110,958	188,315
Amortisation			
– intangible assets	1,604	2,194	2,981
– prepaid lease payments on land use rights	1,986	1,727	2,701
	87,275	114,879	193,997
Less: amount included in research and development expenditure	(970)	(1,144)	(1,187)
	86,305	113,735	192,810
Loss on disposal of property, plant and equipment	3,960	1,039	–
Operating lease payments in respect of rented premises	1,097	1,802	1,512
Staff costs, including directors' emoluments			
Salaries and other benefits costs	106,215	122,821	138,956
Retirement benefit costs	3,289	7,335	8,275
	109,504	130,156	147,231
Less: amount included in research and development expenditure	(1,928)	(2,264)	(2,176)
	107,576	127,892	145,055
Research and development expenditures included in other expenses	11,529	12,383	19,132

11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

In respect of the Relevant Periods, no dividends had been paid to the then shareholder of The United Laboratories (Hong Kong) Holding Limited.

12. EARNINGS PER SHARE

For the purpose of this report, the calculation of basic earnings per share for the Relevant Periods is based on the net profit for each of the Relevant Periods and assuming that 900,000,000 shares of the Company in issue and issuable, comprising 1,000 shares in issue as at the date of the Prospectus and 899,999,000 shares to be issued pursuant to the capitalisation issue as set out in Appendix V to the Prospectus.

Diluted earnings per share are not presented because there were no dilutive potential ordinary shares in existence during the Relevant Periods.

13. 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 2004	256,349	423,002	37,904	27,790	180,971	926,016
Additions	4,698	8,049	3,293	1,859	715,793	733,692
Acquisition of a subsidiary	–	570	–	115	–	685
Disposals	(15,122)	(228)	(191)	(203)	–	(15,744)
Reclassification	221,323	481,933	253	–	(703,509)	–
At 31 December 2004	467,248	913,326	41,259	29,561	193,255	1,644,649
Exchange adjustments	4,932	11,409	531	399	2,759	20,030
Additions	1,808	114,567	3,609	1,921	370,779	492,684
Disposal	–	(9,296)	(322)	(2,499)	–	(12,117)
Reclassification	107,266	414,876	3,154	–	(525,296)	–
Government grants received	–	(17,708)	–	–	–	(17,708)
At 31 December 2005	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
DEPRECIATION						
At 1 January 2004	40,026	161,010	19,899	18,524	–	239,459
Charge for the year	12,445	61,828	6,403	3,009	–	83,685
Eliminated on disposals	(5,897)	(218)	(128)	(184)	–	(6,427)
At 31 December 2004	46,574	222,620	26,174	21,349	–	316,717
Exchange adjustments	493	2,488	326	282	–	3,589
Charge for the year	17,919	85,954	4,264	2,821	–	110,958
Eliminated on disposals	–	(1,123)	(217)	(1,527)	–	(2,867)
At 31 December 2005	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
CARRYING AMOUNTS						
At 31 December 2004	420,674	690,706	15,085	8,212	193,255	1,327,932
At 31 December 2005	516,268	1,117,235	17,684	6,457	41,497	1,699,141
At 31 December 2006	543,522	1,060,365	26,287	4,497	5,406	1,640,077

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

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Leasehold land in Hong Kong:			
Medium-term lease	111,425	108,772	106,953
Leasehold land outside Hong Kong:			
Medium-term lease	309,249	407,496	436,570
	420,674	516,268	543,523

At 31 December 2006, the carrying amount of construction-in-progress includes capitalised interest expenses of nil (31 December 2005: HK$24,413,000, 31 December 2004: HK$16,327,000).

At 31 December 2006, the Group is in the process of obtaining the real estate ownership certificate for building with an aggregate carrying amount of nil (31 December 2005: HK$28,992,000, 31 December 2004: nil).

At 31 December 2004, the carrying amount of plant and machinery includes an amount of HK$14,655,000 in respect of assets held under finance leases.

14. PREPAID LEASE PAYMENTS

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
The Group's prepaid lease payments comprise:			
Leasehold land in Hong Kong:			
Medium-term lease	25,534	25,058	23,747
Land use rights in PRC:			
Medium-term lease	57,353	57,644	58,533
Long-term lease	14,792	–	–
	97,679	82,702	82,280
Analysed for reporting purposes as:			
Non-current asset	95,564	80,961	80,392
Current asset	2,115	1,741	1,888
	97,679	82,702	82,280

15. GOODWILL

	HK$'000
COST	
At 1 January 2004	–
Arising on acquisition of a subsidiary	730
At 31 December 2004	730
Exchange adjustments	42
Arising on acquisition of a subsidiary	2,129
At 31 December 2005	2,901
Exchange adjustments	100
At 31 December 2006	3,001

As explained in note 5, 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:

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Bulk medicine	730	740	766
Finished products	–	2,161	2,235
	730	2,901	3,001

Based on the impairment testing of goodwill at respective balance sheet dates, 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 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.

16. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2004	6,415
Additions	5,471
At 31 December 2004	11,886
Exchange adjustments	171
Additions	536
At 31 December 2005	12,593
Exchange adjustments	437
At 31 December 2006	13,030
AMORTISATION	
At 1 January 2004	2,316
Charge for the year	1,604
At 31 December 2004	3,920
Exchange adjustments	57
Charge for the year	2,194
At 31 December 2005	6,171
Exchange adjustments	215
Charge for the year	2,981
At 31 December 2006	9,367
CARRYING AMOUNTS	
At 31 December 2004	7,966
At 31 December 2005	6,422
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.

17. INTEREST IN AN ASSOCIATE

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cost of unlisted investment in an associate	14,136	14,136	–
Share of post-acquisition results and reserve	(3,271)	(11,410)	–
	10,865	2,726	–

Particulars of the associate of the Group, which was disposed of during the year ended 31 December 2006, are as follows:

Name of associate	**Form of business structure**	**Place of establishment and operation**	**Proportion of registered capital directly held by the Group**	**Principal activity**
聯邦制藥四川製藥（彭州）有限公司 ("The United Laboratories Sichuan Pharmaceutical (Pengzhou) Co., Ltd.")	Equity joint venture	PRC	25%	Manufacturing and sale of pharmaceutical products

During the year ended 31 December 2006, the Group entered into an agreement with 岷江有限公司 (Minjiang Co. Ltd.), which is an independent third party, to dispose of its interest in the associate at a consideration of HK$8,612,000. The Directors represented that the Group has no relationship with 岷江有限公司 (Minjiang Co. Ltd.). The consideration was determined and agreed by both parties mutually. Pursuant to the agreement, the interest in the associate held by the Group was disposed of upon the receipt of consideration by the Group on 29 June 2006.

The summarised financial information in respect of the Group's associate is set out below:

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	181,009	165,106	–
Total liabilities	(137,548)	(154,202)	–
Net assets	43,461	10,904	–
Group's share of net assets of the associate	10,865	2,726	–

	Year ended 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Revenue	72,397	99,938	17,841
Loss for the year	(20,470)	(33,367)	(12,448)
Group's share of result of the associate for the year	(5,118)	(8,342)	(2,726)

18. LOAN RECEIVABLE

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

19. AVAILABLE-FOR-SALE INVESTMENT

	At 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Unlisted investment at cost	23,417	23,417	23,417
Less: Impairment loss recognised	(23,417)	(23,417)	(23,417)
	–	–	–

The above unlisted investment represents 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 and determined the investment was fully impaired. Accordingly, impairment loss of HK$23,417,000 has been recognised prior to the Relevant Periods.

20. INVENTORIES

	At 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	85,753	114,060	115,875
Work in progress	20,150	21,733	74,577
Finished goods	50,772	138,908	153,663
	156,675	274,701	344,115
Inventories stated at cost	149,658	268,100	336,485
Inventories stated at net realisable value	7,017	6,601	7,630
	156,675	274,701	344,115

21. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

	At 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables			
0 to 30 days	107,168	142,759	211,875
31 to 60 days	29,062	91,077	98,002
61 to 90 days	11,083	21,543	25,394
91 to 120 days	5,800	5,939	2,022
121 to 180 days	2,784	12,402	21,083
Over 180 days	1,103	5,395	1,552
	157,000	279,115	359,928
Bills receivables			
0 to 30 days	50,360	40,340	82,688
31 to 60 days	70,889	78,045	92,691
61 to 90 days	35,080	73,667	79,761
91 to 120 days	19,314	24,760	65,621
121 to 180 days	26,998	74,050	70,204
Over 180 days	–	5,813	504
	202,641	296,675	391,469
Deposits, other receivables and prepayments	43,160	55,852	46,990
	402,801	631,642	798,387

22. AMOUNT DUE FROM A FORMER MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due from a former minority shareholder of a subsidiary was unsecured, interest free and repayable on demand. The minority shareholder is 珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited"), which has become a subsidiary of the Group on 13 January 2006. This entity owns 3% equity interest in 珠海聯邦制藥股份有限公司 ("Zhuhai United Laboratories Co., Ltd."), a subsidiary of the Group.

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:

	At 31 December			
Name of borrower	**2003**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Choy Kam Lok	195,133	342,151	319,946	515,673
Maximum balances outstanding		437,578	327,583	515,673

The amount due from a director is unsecured, interest free and repayable on demand. The directors consider the amount due from a director was conducted on normal commercial terms, and their terms are fair and reasonable.

The director will settle the amount due from a director to the Group before listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

24. PLEDGED BANK DEPOSITS, BANK BALANCES AND BANK OVERDRAFT

Pledged bank deposits

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Pledged bank deposits denominated in:			
Renminbi	–	124,529	205,289
Hong Kong Dollars	5,182	5,242	5,385
United States Dollars	–	–	5,891
	5,182	129,771	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 ranges of average effective interest rates per annum of the pledged deposits carried at the respective balance sheet dates are as follows:

At 31 December 2004	1.00% – 1.25%
At 31 December 2005	1.44% – 3.10%
At 31 December 2006	1.44% – 3.25%

Bank balances and cash

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash denominated in:			
Renminbi	83,386	143,154	88,445
Hong Kong Dollars	20,391	4,907	8,445
United States Dollars	2,615	973	2,336
European Dollars	7	7	–
	106,399	149,041	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 ranges of average effective interest rates per annum of the bank balances at the respective balance sheet dates are as follows:

At 31 December 2004	0.72% – 1.00%
At 31 December 2005	0.72% – 2.53%
At 31 December 2006	0.72% – 2.58%

Bank Overdraft

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Bank overdraft	94	1,906	5,956

The ranges of average effective interest rates per annum of the bank overdraft at the respective balance sheet dates are as follows:

At 31 December 2004	6.50%
At 31 December 2005	6.50% – 9.25%
At 31 December 2006	9.25% – 9.50%

25. 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:

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables			
0 to 90 days	199,647	269,217	318,133
91 to 180 days	27,713	78,347	89,335
Over 180 days	13,278	38,670	18,666
	240,638	386,234	426,134
Bills payables			
0 to 90 days	68,822	124,246	183,839
91 to 180 days	21,391	104,974	163,508
Over 180 days	–	4,265	–
	90,213	233,485	347,347
Other payables and accruals	110,143	214,238	120,828
	440,994	833,957	894,309

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments			Present value of minimum lease payments		
	At 31 December			At 31 December		
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	601	–	–	592	–	–
Less: Future finance charges	(9)	–	–	–	–	–
Present value of lease obligations due within one year shown under current liabilities	592	–	–	592	–	–

The Group had leased certain of its plant and machinery under finance leases. The lease terms are ranged from three to four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The range of average effective borrowing rates are ranged from 5.25% to 6.75% per annum.

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

27. BORROWINGS

	At 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Bank loans	899,315	1,075,551	1,112,152
Discounted bills	–	70,940	181,067
Other borrowings *(Note)*	6,070	6,157	6,370
	905,385	1,152,648	1,299,589
Analysed as:			
Secured	292,509	359,229	752,456
Unsecured	612,876	793,419	547,133
	905,385	1,152,648	1,299,589

The borrowings are repayable as follows:

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	532,101	901,079	1,047,460
More than one year, but not exceeding two years	175,297	111,045	240,626
More than two years, but not exceeding five years	197,438	140,524	11,503
Over five years	549	–	–
	905,385	1,152,648	1,299,589
Less: Amount due within one year shown under current liabilities	(532,101)	(901,079)	(1,047,460)
Amount due after one year	373,284	251,569	252,129

Note: Pursuant to the loan agreements with 彭州市財政局 ("Pengzhou Municipal Finance Bureau"), the outstanding balance is unsecured, interest free and repayable by instalments, the last instalment will fall due in February 2010.

The ranges of average effective interest rates per annum of the borrowings at the respective balance sheet dates are as follows:

At 31 December 2004	1.20% – 5.63%
At 31 December 2005	2.80% – 6.72%
At 31 December 2006	5.02% – 7.06%

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

		At 31 December		
Denominated in	**Interest rate**	**2004**	**2005**	**2006**
		HK$'000	*HK$'000*	*HK$'000*
Renminbi	People's Bank of China lending rate	404,136	746,243	861,390
Hong Kong dollars	Hong Kong Interbank Offered Rate plus 1% to 2.5%	501,249	406,405	438,199
		905,385	1,152,648	1,299,589

The directors consider that the interest rates represent prevailing market interest rates and, therefore, the fair values of borrowings estimated by discounting their future cash flows at the prevailing market borrowing rates approximate the corresponding carrying amounts.

28. 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 average effective interest rates per annum of the trust receipt loans at the respective balance sheet dates are as follows:

At 31 December 2004	1.20% – 1.87%
At 31 December 2005	4.53% – 4.69%
At 31 December 2006	6.16% – 6.81%

29. LOAN FROM A DIRECTOR

The amount represents a loan from a director, Mr Choy Kam Lok, which is unsecured, bears interest at Hong Kong prime rate minus 0.625% per annum and has no fixed repayment term. The director represented that the loan were advanced on normal commercial terms, and the terms are fair and reasonable. The director confirmed that he would not demand for repayment within twelve months from the respective balance sheet date.

The loan from a director will be settled in full by the Group before listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

30. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised and movements thereon for the Relevant Periods:

	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	17,721	(6,310)	11,411
(Credit) charge to income statement for the year	(867)	6,293	5,426
At 31 December 2004	16,854	(17)	16,837
(Credit) charge to income statement for the year	(332)	17	(315)
At 31 December 2005	16,522	–	16,522
Credit to income statement for the year	(652)	–	(652)
At 31 December 2006	15,870	–	15,870

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

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Accelerated depreciation charges	33,506	38,597	82,169
Allowances for doubtful debts	23,011	29,271	30,589
Unrealised profit on inventories	7,875	24,667	25,628
Allowances for inventories	2,889	6,322	8,565
	67,281	98,857	146,951

The Group has recognised and unrecognised tax losses at respective balance sheet dates for the Relevant Periods as follows:

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Tax losses			
– recognised	97	–	–
– unrecognised	53,342	120,934	124,437
	53,439	120,934	124,437

A deferred tax assets of HK$17,000 has been recognised in respect of tax losses as at 31 December 2004.

No deferred tax asset has been recognised for the remaining tax losses due to unpredictability of future profits streams. The unrecognised tax losses will expire in the following years ending 31 December:

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Tax losses will expire in:			
2009	48,693	48,693	48,693
2010	–	65,362	65,362
2011	–	–	2,531
	48,693	114,055	116,586
Tax losses without expiry	4,649	6,879	7,851
	53,342	120,934	124,437

31. PAID-UP CAPITAL

For the purpose of this report, the paid-up capital as at respective balance sheet dates for the Relevant Periods represented the issued and fully paid share capital of The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group.

32. ACQUISITION OF SUBSIDIARIES

On 28 April 2004, the Group acquired 100% of equity interest of 珠海樂邦制藥有限公司 (Zhuhai Lebang Laboratories Co., Ltd.) from an independent third party, Hong Kong Greatstar Industries Company Limited (香港明星實業有限公司), for a consideration of HK$1,415,000. The directors represented that the Group has no relationship with Hong Kong Greatstar Industries Company Limited (香港明星實業有限公司). The consideration was determined and agreed by both parties mutually. This acquisition has been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was HK$730,000 (note a).

On 1 January 2005, the Group acquired 100% of equity interest of 珠海市萬邦藥業有限公司 (Zhuhai Wanbang Pharmaceutical Company Limited) from 黃金常 (Huang Jinchang) and 馬新艷 (Ma Xinyan) for a consideration of HK$11,604,000. The directors represented that the Group has no relationship with 黃金常 (Huang Jinchang) and 馬新艷 (Ma Xinyan). The consideration was determined and agreed by both parties mutually. This acquisition has been accounted for by the purchase method of accounting. The amount of positive goodwill arising as a result of the acquisition was HK$2,129,000 (note b).

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 寧亞祿 (Ning Yalu) and 蘇銓興 (Su Quanxing) for a consideration of HK$14,353,000. The directors represented that 寧亞祿 (Ning Yalu) is a brother of Mr Choy's spouse and 蘇銓興 (Su Quanxing) is a staff of the Group. The consideration was determined and agreed by both parties mutually (note c). The acquisition has been accounted for as an acquisition of additional interest in a subsidiary that do not result in a change of control.

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	685	–	–
Partial interest in a subsidiary	–	–	26,256
Inventories	–	32,560	–
Trade and bills receivables, deposits and prepayments	–	182,808	15,224
Bank balances and cash	–	26,674	553
Trade and bills payables and accrued charges	–	(226,176)	(5,131)
Borrowings	–	(6,391)	–
	685	9,475	36,902
Goodwill arising on acquisition	730	2,129	–
Excess of the carrying amounts of net assets of subsidiary acquired over the consideration paid, credited to special reserve	–	–	(22,549)
Total consideration	1,415	11,604	14,353
Net cash outflow arising on acquisition:			
Cash consideration	(1,415)	(11,604)	(14,353)
Bank balances and cash acquired	–	26,674	553
Net (outflow) inflow of cash and cash equivalents in respect of the purchase of a subsidiary	(1,415)	15,070	(13,800)

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

The goodwill arising on the acquisition of 珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.") and 珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited") are attributable to the anticipated future operating synergies from the respective combination.

Notes:

(a) 珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.") incurred a post-acquisition loss of HK$201,000 for the period between the date of acquisition and 31 December 2004. If the acquisition had been completed on 1 January 2004, total group revenue for the year would have been HK$1,200.1 million, and profit before tax would have been HK$168.2 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2004, nor is it intended to be a projection of future results. The net profit after tax of 珠海樂邦制藥有限公司 ("Zhuhai Lebang Laboratories Co., Ltd.") for the year ended 31 December 2005 and 2006 are HK$8,356,000 and HK$14,535,000 respectively.

(b) 珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited") incurred post acquisition loss of HK$877,000 for the period between the date of acquisition and 31 December 2005. The net profit after tax of Zhuhai Wanbang Pharmaceutical Company Limited for the year ended 31 December 2005 and 2006 are HK$7,872,000 and HK$71,849,000 respectively. The pre-acquisition financial information of 珠海市萬邦藥業有限公司 ("Zhuhai Wanbang Pharmaceutical Company Limited") for the year ended 31 December 2004 is set out as below:

Financial position

		As at 31 December 2004
	Note	*HK$'000*
Current assets		
Inventories	*(i)*	32,560
Trade and bills receivables, deposits and prepayments	*(ii)*	182,808
Bank balances and cash		26,674
		242,042
Current liabilities		
Trade and bills payables and accrued charges	*(iii)*	226,176
Borrowings	*(iv)*	6,391
		232,567
Net current assets		9,475
Capital and reserve		
Paid-up capital		943
Retained profits		8,532
Total equity		9,475

Result of operations

	Notes	Year ended 31 December 2004 HK$'000
Turnover	*(v)*	491,549
Cost of sales		(357,021)
Gross profit		134,528
Other income		79
Selling and distribution costs		(122,556)
Administrative expenses		(1,846)
Other expenses		(1,673)
Profit before taxation	*(vi)*	8,532
Taxation	*(vii)*	–
Profit for the year		8,532

Statements of change in equity

	Paid-up capital HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004	943	–	943
Profit for the year	–	8,532	8,532
At 31 December 2004	943	8,532	9,475

Cashflow statements

	Year ended 31 December 2004 *HK$'000*
Profit before taxation	8,532
Adjustments for:	
Allowance for doubtful debts	1,096
Bank interest income	(72)
Operating cash flows before movements in working capital	9,556
Increase in inventories	(32,560)
Increase in trade and other receivables, deposits and prepayments	(183,904)
Increase in trade and other payables and accrued charges	226,176
Net cash from operating activities	19,268
Cash from investing activity	
Interest received	72
Cash from financing activity	
New borrowing raised	6,391
Net increase in cash and cash equivalents	25,731
Cash and cash equivalents at beginning of the year	943
Cash and cash equivalents at end of the year	26,674
Analysis of the balances of cash and cash equivalents	
Bank balances and cash	26,674

Notes:

(i) Inventories represent finished good stated at cost.

(ii) Trade and bills receivables, deposits and prepayments

The following is an aged analysis of trade receivables at 31 December 2004:

	HK$'000
Trade receivables	
0 to 30 days	81,935
31 to 60 days	26,060
61 to 90 days	2,197
91 to 180 days	2,509
Over 180 days	359
	113,060
Deposits, other receivables and prepayments	69,748
	182,808

The directors consider that the carrying amounts of trade receivables, deposits and other receivables approximate to their fair value.

(iii) Trade and bills payables and accrued charges

The followings is an aged analysis of the trade payables at 31 December 2004:

	HK$'000
Trade payables	
0 to 90 days	201,338
91 to 180 days	2,997
	204,335
Other payables and accruals	21,841
	226,176

The fair values of the trade and other payables at balance sheet date approximate to the corresponding carrying amounts.

(iv) Borrowings represent discounted bills, which are denominated in RMB.

(v) Turnover

Turnover represents the net amounts received and receivable for goods sold by the Company to outside customers, less returns and allowances.

(vi) Profit for the year

	HK$'000
Profit for the year has been arrived at after charging:	
Allowance for doubtful debts	1,096
Operating lease payments in respect of rented premises	154
Staff cost, including directors' emoluments	
Salaries and other benefit costs	108
Retirement benefit costs	46
	154
Management fee	19,869

(vii) Taxation

	HK$'000
Income tax	–
Profit before taxation	8,532
Tax at PRC Profits Tax rate of 33%	2,816
Tax effect of income not taxable for tax purpose	(25)
Tax effect of deferred tax assets not recognised	383
Effect of tax exemptions granted	(3,174)
Taxation	–

(c) 珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited") incurred post-acquisition loss of HK$145,000 for the period between the date of acquisition and 31 December 2006.

If the acquisition of 珠海市金德福企業策劃有限公司 ("Zhuhai Jindefu Enterprise Planning Company Limited") had been completed on 1 January 2006, total group revenue for the period would have been HK$2,080.5 million, and profit before tax would have been HK$221.8 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

33. MAJOR NON-CASH TRANSACTIONS

The interest on loan from a director for the year ended 31 December 2006 of HK$11,958,000 (2005: HK$9,010,000, 2004: HK$6,736,000) was settled by crediting an equivalent sum to loan from a director.

34. OPERATING LEASES

The Group as lessee

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:			
Within one year	173	330	618
In the second to fifth years inclusive	131	58	125
	304	388	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 two to three years and rentals are fixed throughout the lease term.

The Group as lessor

	At 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Contracts with tenants for the following future lease payments under non-cancellable operating leases which fall due as follows:			
Within one year	18	18	19
In the second to fifth years inclusive	39	20	3
	57	38	22

Property rental income earned during the Relevant Periods are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Property rental income	19	19	19

35. CAPITAL COMMITMENTS

	At 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the combined financial information	292,297	23,636	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:

	At 31 December		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	174,510	485,974	484,384
Prepaid lease payments	56,041	66,179	67,973
Trade and bills receivables	89,867	187,260	162,944
Pledged bank deposits	5,182	129,771	216,565
	325,600	869,184	931,866

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 rates specified in the rules. 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 are charged to the combined 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.

38. GOVERNMENT GRANTS

During the Relevant Periods, the Group received the following government grants to subsidise the acquisition of property, plant and machinery and prepaid lease payments:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and machinery	–	17,708	2,663
Prepaid lease payment	–	2,855	–
	–	20,563	2,663

The government grants to subsidise the acquisition of property, plant and machinery and prepaid lease payments 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 no impact on the depreciation or amortisation charge in the current or prior years.

In addition, included in trade and bills payables and accrued charges are deferred government subsidy of HK$8,763,000 (31 December 2005: HK$2,584,000, 31 December 2004: HK$6,604,000) which are provided by the PRC governmental 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 combined income statement of HK$4,130,000 (31 December 2005: Nil, 31 December 2004: Nil).

39. RELATED PARTY TRANSACTIONS

In addition to the amount due from a director and the loan from a director set out in notes 7, 23 and 29 respectively, the Group entered into the following transactions with related parties during the Relevant Periods:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Purchase of goods from associate	2,527	–	–

In the opinion of the directors, the purchase of goods from associate was conducted on normal commercial terms, and their terms are fair and reasonable. The purchases of goods from associate will be discontinued after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

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 will be released before the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and will be replaced by the guarantees provided by the Company.

II. NET ASSETS OF THE COMPANY

The Company was incorporated on 6 March 2006. As at 31 December 2006, the Company had no asset and liability. Pursuant to the Reorganisation, the Company became the holding company of the Group on 25 May 2007. Had the Group Reorganisation been completed on 31 December 2006, the net assets of the Company as at 31 December 2006 would have been approximately HK$1,311,595,000, representing its interest in subsidiaries.

III. DIRECTORS' REMUNERATIONS

Under the arrangement currently in force, the aggregate amount of remunerations of the directors of the Company payable for the year ending 31 December 2007 is estimated to be approximately HK$4,926,000.

IV. ULTIMATE HOLDING COMPANY

At the date of this report, the directors of the Company consider Gesell Holdings Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

V. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31 December 2006:

(a) 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 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.

(b) On 25 May 2007, the companies comprising the Group underwent and completed a reorganisation in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. Further details of the Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix V to the Prospectus.

(c) On 25 May 2007, written resolutions of the sole shareholder of the Company were passed to approve the matters set out in the paragraph headed "Written Resolutions of the sole shareholder of the Company passed on 25 May 2007" in Appendix V to the Prospectus.

(d) On 31 December 2006, the Group had breached certain financial covenants contained in a bank loan agreement regarding the gearing ratio of the Group should not exceed of a specified ratio and not allow to pledge of certain assets of the Group. Details of the breach of covenants are set out in section of liquidity risk in note 4 to the Financial Information. Accordingly, the portion of loans from the bank which repayable after one year as at 31 December 2006 of HK$42,238,000 were classified as current liabilities. On 29 January 2007, the bank agreed to waive the Group to strictly comply these financial covenants.

Save as aforesaid, no other significant events took place subsequent to 31 December 2006.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to illustrate the effect of the Share Offer on the unaudited pro forma adjusted net tangible assets of the Group as if it had taken place on 31 December 2006.

The pro forma financial information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Group following the Share Offer.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group, which has been prepared for the purpose of illustrating the effect of the Share Offer as if it had been taken place on 31 December 2006:

	Audited combined net tangible assets of the Group as at 31 December 2006 *HK$'000*	**Estimated net proceeds from the Share Offer** *HK$'000*	**Unaudited pro forma adjusted net tangible assets** *HK$'000*	**Unaudited pro forma adjusted net tangible assets per Share** *HK$*
Based on an Offer Price of HK$2.75 per Share	1,304,931	744,212	2,049,143	1.71
Based on an Offer Price of HK$2.25 per Share	1,304,931	600,224	1,905,155	1.59

This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of financial position of the Group following the Share Offer.

Notes:

1. Audited combined net tangible assets of the Group as at 31 December 2006 are determined based on the audited combined net assets of the Group of HK$1,311,595,000 at 31 December 2006, excluding the Group's goodwill of HK$3,001,000 and intangible assets of HK$3,663,000 as at 31 December 2006.

2. The estimated net proceeds of the Share Offer are based on the 300,000,000 New Shares and the Offer Price of HK$2.75 and HK$2.25 per Share, after deduction of the underwriting fees and related expenses payable by the Company.

3. The calculation of the unaudited pro forma adjusted net tangible assets per Share is calculated based on the total of 1,200,000,000 Shares in issue (including Shares in issue as at the date of this prospectus, Capitalisation Issue and those Shares to be issued pursuant to the Share Offer but without taking into account any Shares which may fall to be issued pursuant to the Share Option Scheme or which may fall to be issued or repurchased pursuant to the general unconditional mandate of the Company).

4. With reference to the valuation of the Group's properties as at 31 March 2007 as set out in Appendix III to this prospectus, there was a revaluation surplus of the Group's properties of approximately HK$59.8 million. The Group will not incorporate the revaluation surplus in its financial statements. If the revaluation surplus were to be incorporated in the Group's financial statements, additional depreciation charge would be approximately HK$1.2 million per annum.

5. Subsequent to 31 December 2006, United Laboratories (BVI) Holding, the then holding company of the Group, declared a special dividend of HK$277,083,000 to Mr Choy on 21 May 2007. This dividend was settled by offsetting the amount due from Mr Choy of HK$437,183,000 and loan from Mr Choy of HK$160,100,000. No adjustment to the net tangible assets of the Group as of 31 December 2006 was made in respect of such declared dividend of HK$277,083,000.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received by the Directors from Deloitte Touche Tohmatsu, the reporting accountants of the Company, in connection with the unaudited pro forma financial information.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma adjusted net tangible assets (hereinafter referred to as the "Unaudited Pro Forma Financial Information") of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company for illustrative purpose only, to provide information about how the share offer of 300,000,000 shares of the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 4 June 2007 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
4 June 2007

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 March 2007 of the property interests of the Group.

Sallmanns

Corporate Valuation and Consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

4 June 2007

The Board of Directors
The United Laboratories International Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests in property No. 2 in Group I and property Nos. 7 to 26 in Group II by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties in Hong Kong and the PRC, there are no market sales comparables readily available, the property interests in property No. 1 in Group I which is held under a long-term lease and property Nos. 3 to 6 in Group II have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing those property interests of the Group in Hong Kong held under the Government Leases expiring before 30 June 1997, we have taken account of the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30 June 2047 and that a rent of three per cent of the then rateable value is charged per annum from the date of extension.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of the title documents relating to the property interests in Hong Kong and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify ownership or to ascertain any amendment.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal advisers – Commerce & Finance Law Offices, concerning the validity of the Group's titles to the property interests in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rate in our valuation is approximately HK$1=RMB0.99 which was the prevailing exchange rate as at the date of valuation.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
1.	6 Fuk Wang Street Yuen Long Industrial Estate Yuen Long New Territories Hong Kong	97,000,000
2.	Flat C on 25th Floor of Estoril Heights and Car Parking Space 881 in 1st Basement of Commercial and Community Centre of Belair Gardens No. 52 Tai Chung Kiu Road Shatin New Territories Hong Kong	3,500,000
	Sub-total:	100,500,000

Group II – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
3.	A parcel of land, various buildings and structures located at Sanzao Science and Technology Industry Garden National New Technology Industry Area Sanzao Town Zhuhai City Guangdong Province The PRC	116,247,000
4.	4 parcels of land, various buildings and structures located at No. 1 Industry Area East Area Shiliu Wei Anfu Village Tanzhou Town Zhongshan City Guangdong Province The PRC	62,817,000
5.	A parcel of land, various buildings and structures located at No. 58-5 Xinchang Lechong Road No. 1 Industry Area East Area Sanbu District Kaiping City Guangdong Province The PRC	10,558,000
6.	3 parcels of land, various buildings and structures located at the south of No. 8 Mudan Avenue Industry Development Area Pengzhou City Sichuan Province The PRC	366,352,000

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
7.	Buildings Nos. 4, 5 and 7 located at Hefu Garden Yuetang Village Sanzao County Jinwan District Zhuhai City Guangdong Province The PRC	7,105,000
8.	Complex Building B1 East Block located at Yingyue Xincun Sanzao County Jinwan District Zhuhai City Guangdong Province The PRC	1,813,000
9.	Unit 403 of Entrance 1 of Block 116-1 located at Tieling Road Shenhe District Shenyang City Liaoning Province The PRC	429,000
10.	Unit 603 of Block B of No. 3 Building located at Jingdi Garden No. 6 Daping Dahuang Road Yuzhong District Chongqing The PRC	240,000
11.	Unit 13-1 of Yinlong Mansion located at No. 1 Xiaonan Road Liuzhou City Guangxi Zhuang Autonomous Region The PRC	309,000

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
12.	Unit 201 of Entrance 1 of No. 113 Building located at Region 1 of Huizhong Beili Xiaoqu Yayun Village Chaoyang District Beijing The PRC	803,000
13.	Unit 202 of Entrance 2 of No. 2 Building located at Guofang Road No. 48 Yard Wacang Village Kunming City Yunnan Province The PRC	273,000
14.	Units 301 and 302 of Entrance 4 of No. 73 Building located at No. 7 Block of Zhaohui Hangzhou City Zhejiang Province The PRC	1,042,000
15.	Unit D43 of No. F17 Building located at Block Xinfa Nangang District Harbin City Heilongjiang Province The PRC	246,000
16.	Unit 302 of Entrance 2 of No. 3 Building Tianfu Garden located at No. 6 Xingfu Road Urumchi City Sinkiang Uigur Autonomous Region The PRC	214,000
17.	Unit 1501 of Block A of Huajia Mansion located at No. 52 Shangdong Road South District Qingdao City Shangdong Province The PRC	567,000

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
18.	Unit 2001 of Olympiad Mansion located at No. 28 Fuzhou Road Donghu District Nanchang City Jiangxi Province The PRC	363,000
19.	Unit 2C of Tianfu Ge located at Huafuyuan No. 3 Cangfang Street Wuyi Road Gulou District Fuzhou City Fujian Province The PRC	449,000
20.	Unit 1204 of Yuandong Apartment Block located at No. 1 Renmin Zhong Road Changsha City Hunan Province The PRC	419,000
21.	Unit 12-03 of Limin Mansion located at No. 123 Liji Bei Road Qiaokou District Hankou Wuhan City Hubei Province The PRC	362,000
22.	Unit 201 of Entrance 1 of No. 15 Building located at Feicui Park Yongleyuan Block Taiyuan City Shanxi Province The PRC	318,000

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
23.	Unit 1408 of Entrance 1 of Block A located at No. 11 Yard Kangfu Qian Street Erqi District Zhengzhou City Henan Province The PRC	317,000
24.	Unit J on Level 11 and 12 of Entrance 2 located at No. 351 Minzheng Street Shahekou District Dalian City Liaoning Province The PRC	522,000
25.	Unit 802 of Block A of Chuangjia Mansion located at No. 188 Xiyi Road Xi'an City Shannxi Province The PRC	539,000
26.	Unit 301 of Entrance 1 of Block A located at Tianyang Apartment Block Guiyang City Guizhou Province The PRC	316,000
	Sub-total:	572,620,000

Group III – Property interests rented and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 March 2007 *RMB*
27.	Levels 1 to 8 of Block B, C and D of Building Bing located at Chengfu Garden, Sanzai Yuyue Village Sanzao Town Zhuhai City Guangdong Province The PRC	No commercial value
28.	15 units of a complex building located at Shiliu Wei Anfu Village Tanzhou Town Zhongshan City Guangdong Province The PRC	No commercial value
29.	Levels 2 to 6 of Yulin Dormitory located at Tingjiao Hill Yulin Village Sanzao Town Zhuhai City Guangdong Province The PRC	No commercial value
30.	Unit 405 of Block 7 Boli Building located at International Service Centre Huisong Mountain Shuwantou Zhuhai City Guangdong Province The PRC	No commercial value
	Sub-total:	Nil
	Total:	673,120,000

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
1.	6 Fuk Wang Street Yuen Long Industrial Estate Yuen Long New Territories Hong Kong The Remaining Portion of Section K of Yuen Long Town Lot No. 313 and the Extensions Thereto (the "Lot")	The property comprises a parcel of land with a site area of approximately 10,731.9 sq.m. on which is erected a 5-storey industrial building with a gross floor area of approximately 14,746.92 sq.m. completed in about 2000. By a lease agreement ("Lease Agreement") dated 6 May 2004, the property was leased from Hong Kong Science and Technology Parks Corporation (the "Corporation") to The United Laboratories, Limited for a term expiring on 27 June 2047. The Lot is held by the Corporation under the New Grant No. 3102 for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group for industrial and ancillary office purposes.	97,000,000

Notes:

1. The lessee of the property is The United Laboratories, Limited by virtue of the Lease Agreement registered in the Land Registry by Memorial No. YL1083091 and dated 6 May 2004.

2. The United Laboratories, Limited is a wholly-owned subsidiary of the Company.

3. The property is subject to a Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited registered in the Land Registry by Memorial No. YL1083778 and dated 6 May 2004.

4. In accordance with the Lease Agreement mentioned above, the property is restricted for specific uses. The leasehold interest of the Group is however assignable subject to the right of first refusal to purchase by the Corporation at "surrender value". As extracted from clause B (11)(b)(i)(A) and (B) of the above Lease Agreement, surrender value refers to the (1) aggregate of the discounted land premium for the unexpired term of the lease and the depreciated cost of buildings at the date of the Corporation's acceptance reduced by ten percent; and (2) the market value of the land, buildings, fixtures and fittings at the date of the Corporation's acceptance of surrender reduced by ten percent, whichever is less.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
2.	Flat C on 25th Floor of Estoril Heights and Car Parking Space 881 in 1st Basement of Commercial and Community Centre of Belair Gardens No. 52 Tai Chung Kiu Road Shatin New Territories Hong Kong 17/32856th shares of and in Sha Tin Town Lot No. 11	The property comprises a unit on the 25th floor of a 28-storey residential building and a carparking space on 1st Basement of a commercial block within a commercial/residential development completed in about 1982. The unit has a gross floor area of approximately 1,125 sq.ft. (104.5 sq.m.). The property is held under the New Grant No. 11107 for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 and statutorily renewed until 30 June 2047. The current Government Rent payable for the property is 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group for residential and carparking purposes.	3,500,000

Notes:

1. The registered owner of the property is The United Laboratories Limited, a wholly-owned subsidiary of the Company, by virtue of an Assignment registered in the Land Registry by Memorial No. ST754999 and dated 8 March 1994.

2. The property is subject to and with the benefit of a Deed of Mutual Covenant registered in the Land Registry by Memorial No. ST208342 and dated 8 March 1982 and two Sub-deeds of Mutual Covenant registered in the Land Registry by Memorial Nos. ST217930 and ST325633 and dated 24 September 1982 and 15 April 1986 respectively.

3. The property is subject to a Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited registered in the Land Registry by Memorial No. ST892685 and dated 20 August 1996.

VALUATION CERTIFICATE

Group II – Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
3.	A parcel of land, various buildings and structures located at Sanzao Science and Technology Industry Garden National New Technology Industry Area Sanzao Town Zhuhai City Guangdong Province The PRC	The property comprises a parcel of land with a site area of approximately 239,487.3 sq.m. on which are constructed 19 buildings and various ancillary structures completed in various stages between 1997 and 2006. The buildings have a total gross floor area of approximately 40,177.59 sq.m. The buildings mainly include workshops, storehouses, office buildings, power room, boiling room and canteen, etc. The structures mainly include roads, fences, gates, drainage and ponds. The land use rights of the property were granted for a term of 50 years expiring on 1 January 2051 for industrial use.	The property is currently occupied by the Group for production and ancillary office purposes.	116,247,000

Notes:

1. Pursuant to 20 Real Estate Title Certificates – Yue Fang Di Zheng Zi Nos. C5223952 to C5223970 and C5229351 issued by the People's Government of Guangdong Province, the land use rights of a parcel of land with a site area of approximately 239,487.3 sq.m. and 19 buildings with a total gross floor area of approximately 40,177.59 sq.m. are vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Lebang Laboratories Co., Ltd. ("Zhuhai Lebang"), a wholly-owned subsidiary of the Company, a workshop with a gross floor area of approximately 1,560 sq.m. was rented to Zhuhai Lebang for a term of 2 years commencing from 1 September 2006 and expiring on 31 August 2008 at a monthly rental of RMB8 per sq.m., exclusive of water and electricity charges.

4. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Lebang, an office unit with a gross floor area of approximately 56 sq.m. was rented to Zhuhai Lebang for a term of 2 years commencing from 1 July 2005 and expiring on 30 June 2007 at a monthly rental of RMB25 per sq.m., exclusive of water and electricity charges.

5. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Lebang, two warehouses with a total gross floor area of approximately 420 sq.m. were rented to Zhuhai Lebang for a term of 2 years commencing from 1 July 2005 and expiring on 30 June 2007 at a monthly rental of RMB8 per sq.m., exclusive of water and electricity charges.

6. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Kangzhile Pharmaceutical Co., Ltd. ("Zhuhai Kangzhile"), a wholly-owned subsidiary of the Company, an office unit with a gross floor area of approximately 80 sq.m. was rented to Zhuhai Kangzhile for a term of 2 years commencing from 1 August 2005 and expiring on 31 July 2007 at a monthly rental of RMB10 per sq.m., exclusive of water and electricity charges.

7. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Wanbang Pharmaceutical Company Limited ("Zhuhai Wanbang"), an office unit with a gross floor area of approximately 450 sq.m. was rented to Zhuhai Wanbang for a term of 5 years commencing from 1 January 2004 and expiring on 31 December 2008 at a monthly rental of RMB30,000 (together with the tenancy agreement at Property 4 note 5), inclusive of water and electricity charges.

8. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Wanbang, an office unit with a gross floor area of approximately 100 sq.m. was rented to Zhuhai Wanbang for a term of 4 years commencing from 1 January 2004 and expiring on 31 December 2007 at a monthly rental of RMB1,000, inclusive of water and electricity charges.

9. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of a parcel of land with a site area of approximately 239,487.3 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai;

   (ii) The building ownership rights of 19 buildings with a total gross floor area of approximately 40,177.59 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai;

   (iii) The property is subject to a mortgage in favour of Shenzhen HSBC; and

   (iv) The Tenancy Agreements are valid, binding and enforceable under the relevant PRC laws and United Laboratories Zhuhai has the legal rights to lease the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
4.	4 parcels of land, various buildings and structures located at No. 1 Industry Area East Area Shiliu Wei Anfu Village Tanzhou Town Zhongshan City Guangdong Province The PRC	The property comprises 4 parcels of land with a total site area of approximately 59,845.02 sq.m. on which are constructed 11 buildings and various ancillary structures completed in various stages between 1994 and 2001. The buildings have a total gross floor area of approximately 43,499.33 sq.m. The buildings mainly include workshops, office buildings, composite buildings, boiling room and reception rooms, etc. The structures mainly include roads, drainage facilities and landscape facilities, etc. The land use rights of the property were granted for terms with the latest expiry date on 9 April 2068.	The property is currently occupied by the Group for production and ancillary office purposes.	62,817,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Certificates – Zhong Fu Guo Yong (2003) Nos. 330223 to 330225 issued by the Government of Zhongshan City, the land use rights of 3 parcels of land with a total site area of approximately 59,643.42 sq.m. are vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai") for industrial use for terms with the latest expiry date on 8 June 2048.

2. Pursuant to a State-owned Land Use Rights Certificate – Zhong Fu Guo Yong (2007) No. 330322 issued by the Government of Zhongshan City, the land use rights of a parcel of land with a residential site area of approximately 201.60 sq.m. are vested in United Laboratories Zhuhai for a term expiring on 9 April 2068 for residential use.

3. Pursuant to 4 Real Estate Title Certificates – Yue Fang Di Zheng Zi Nos. C1625723, C1625724, C5171682 and C5171683 issued by the Government of Zhongshan City, 11 buildings with a total gross floor area of approximately 43,499.33 sq.m. are vested in United Laboratories Zhuhai.

4. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

5. Pursuant to a Tenancy Agreement entered into between United Laboratories Zhuhai and Zhuhai Wanbang, an office unit with a gross floor area of approximately 1,550 sq.m. was rented to Zhuhai Wanbang for a term commencing from 1 July 2004 and expiring on 31 December 2008 at a monthly rental of RMB30,000 (together with the tenancy agreement at Property 3 note 7), inclusive of water and electricity charges.

6. The property is used by United Laboratories Zhuhai (Zhongshan Branch Company).

7. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of 4 parcels of land with a total site area of approximately 59,845.02 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai;

   (ii) The building ownership rights of 11 buildings with a total gross floor area of approximately 43,499.33 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (iii) The Tenancy Agreement is valid, binding and enforceable under the relevant PRC laws and United Laboratories Zhuhai has the legal rights to lease the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
5.	A parcel of land, various buildings and structures located at No. 58-5 Xinchang Lechong Road No. 1 Industry Area East Area Sanbu District Kaiping City Guangdong Province The PRC	The property comprises a parcel of land with a site area of approximately 8,312 sq.m. on which are constructed 5 buildings and various ancillary structures completed in various stages between 1988 and 2000. The buildings have a total gross floor area of approximately 11,037.96 sq.m. The buildings include a workshop, a residential building, a boiling room, a canteen and ancillary building. The structures mainly include roads, boundary fences and landscape, etc. The land use rights of the property were granted for a term of 50 years expiring on 23 August 2051.	The property is currently occupied by the Group for production and ancillary office purposes.	10,558,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Kai Fu Guo Yong (2001) No. 00907 issued by the Kaiping Land Resource and Building Management Bureau, the land use rights of a parcel of land with a site area of approximately 8,312 sq.m. are vested in Guangdong Kaiping Kingly Capsule Co. Limited ("Kingly Capsule") for a term of 50 years expiring on 23 August 2051 for industrial use.

2. Pursuant to a Real Estate Title Certificate – Yue Fang Di Zheng Zi No. C0568398 issued by the Government of Guangdong Province, a building with a gross floor area of approximately 8,455.54 sq.m. is vested in Kingly Capsule.

3. Kingly Capsule is a wholly-owned subsidiary of the Company.

4. In the valuation of this property, we have not attributed any commercial value to 4 buildings with a total gross floor area of approximately 2,582.42 sq.m. which have not obtained any proper title certificates. However, for reference purposes, we are of the opinion that the capital value of these buildings (excluding the land) as at the date of valuation would be RMB868,000 assuming all relevant title ownership certificates have been obtained and the buildings could be freely transferred.

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of a parcel of land with a site area of approximately 8,312 sq.m. are legally vested in Kingly Capsule and can be transferred, sublet, mortgaged or handled by Kingly Capsule;

   (ii) The building ownership rights of a building with a gross floor area of approximately 8,455.54 sq.m. are legally vested in Kingly Capsule and can be transferred, sublet, mortgaged or handled by Kingly Capsule;

   (iii) The property is not subject to mortgage or any other encumbrance; and

   (iv) There is legal impediment for Kingly Capsule to obtain the relevant title certificate for the 4 buildings with a total gross floor area of approximately 2,582.42 sq.m. There is legal defects for Kingly Capsule to use such buildings. As confirmed by the Company, they are all used for ancillary facilities and not crucial to the operation of the Group.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
6.	3 parcels of land, various buildings and structures located at the south of No. 8 Mudan Avenue Industry Development Area Pengzhou City Sichuan Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 398,784.53 sq.m. on which are constructed 43 buildings and various ancillary structures completed in various stages between 2003 and 2005. The buildings have a total gross floor area of approximately 111,809.82 sq.m. The buildings mainly include workshops, storehouses, office buildings, a repair workshop, electric workshops, bump rooms, a sewage treatment room, distribution rooms, boiling rooms, dormitories and a canteen, etc. The structures mainly include chimneys, roads, fences, gates, drainage, ponds, cables and landscape facilities. The land use rights of the property were granted for a term of 50 years expiring on 23 September 2053.	The property is currently occupied by the Group for production, ancillary office and power supply purposes.	366,352,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates – Peng Guo Yong (2003) Di Nos. 35-2233 and 35-2234 issued by the Pengzhou State-owned Land and Resource Bureau, the land use rights of 2 parcels of land with a total site area of approximately 323,626.66 sq.m. are vested in The United Laboratories (Chengdu) Co. Ltd. ("United Laboratories Chengdu") for a term of 50 years expiring on 23 September 2053 for industrial use.

2. Pursuant to 30 Building Ownership Certificates – Peng Fang Quan Zheng Jian Zheng Zi Nos. 0047066, 0047068, 0047069, 0047070, 0047074 to 0047078, 0047185, 0046724, 0046728, 0046729, 0046731, 0046798, 0046801, 0046803, 0046810, 0046811, 0046815 and 0054593 to 0054602 issued by the Pengzhou Real Estate Administrative Bureau, 40 buildings with a total gross floor area of approximately 110,174.85 sq.m. are vested in United Laboratories Chengdu.

3. United Laboratories Chengdu is a wholly-owned subsidiary of the Company.

4. Pursuant to two State-owned Land Supply Agreements entered into between United Laboratories Chengdu and the Pengzhou State-owned Land Resource Bureau, two parcels of land with a total site area of approximately 463.34 Mu (308,895 sq.m.) were granted to United Laboratories Chengdu for a term of 50 years.

5. Pursuant to a declaration of the Company, two parcels of land with a total site area of approximately 398,784.53 sq.m. were granted to the Company, of which 323,626.66 sq.m. has obtained State-owned Land Use Rights Certificates. The remaining parcel of land with a site area of approximately 75,157.87 sq.m. is used for power station purpose and shall be applied for the title certificate separately.

6. In the valuation of this property, we have not attributed any commercial value to a parcel of land with a site area of approximately 75,157.87 sq.m. which has not obtained any proper title certificates. However, for reference purposes, we are of the opinion that the capital value of the land as at the date of valuation would be RMB14,059,000 assuming all relevant title certificates have been obtained and it could be freely transferred. As confirmed by the Company, the land is utilised for ancillary facilities and not crucial for the operation of the Group.

7. In the valuation of this property, we also have not attributed any commercial value to 3 buildings with a total gross floor area of approximately 1,634.97 sq.m. which have not obtained any proper title certificates. However, for reference purposes, we are of the opinion that the capital value of the buildings (excluding the land) as at the date of valuation would be RMB1,406,000 assuming all relevant title ownership certificates have been obtained and the buildings could be freely transferred. As confirmed by the Company, the 3 buildings with a total gross floor area of approximately 1,634.97 sq.m. are all used for ancillary facilities and not crucial to the operation of the Group.

8. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of 2 parcels of land with a site area of approximately 323,626.66 sq.m. are legally vested in United Laboratories Chengdu and can be transferred, sublet, mortgaged or handled by United Laboratories Chengdu;

   (ii) The building ownership rights of 40 buildings with a gross floor area of approximately 110,174.85 sq.m. are legally vested in United Laboratories Chengdu and can be transferred, sublet, mortgaged or handled by United Laboratories Chengdu;

   (iii) United Laboratories Chengdu is in the process of applying the relevant title certificate for the parcel of land with a site area of approximately 75,157.87 sq.m. There is no material legal impediment for United Laboratories Chengdu to obtain the relevant title certificate;

   (iv) United Laboratories Chengdu is in the process of applying the relevant title certificates for the remaining 3 buildings with a total gross floor area of approximately 1,634.97 sq.m. There is no material legal impediment for United Laboratories Chengdu to obtain the relevant title certificates; and

   (v) 2 parcels of land with a total site area of approximately 323,626.66 sq.m. and 30 buildings with a total gross floor area of approximately 97,298.08 sq.m. are subject to a mortgage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
7.	Buildings Nos. 4, 5 and 7 located at Hefu Garden Yuetang Village Sanzao County Jinwan District Zhuhai City Guangdong Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 811.66 sq.m. on which are constructed 3 residential buildings completed in 1992. The buildings have a total gross floor area of approximately 3,947 sq.m. The land use rights of the property were granted for terms of 70 years expiring on 10 June 2062 and 19 July 2062 for residential use.	The property is currently occupied by the Group for residential purpose.	7,105,000

Notes:

1. Pursuant to 2 Real Estate Title Certificates – Yue Fang Di Zheng Zi Nos. C0900213 and C0909296 issued by the Government of Guangdong Province, the land use rights of 2 parcels of land with a total site area of approximately 811.66 sq.m. and 3 buildings with a total gross floor area of approximately 3,947 sq.m. are vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of 2 parcels of land with a total site area of approximately 811.66 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai;

   (ii) The building ownership rights of 3 buildings with a total gross floor area of approximately 3,947 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (iii) The property is subject to mortgage in favour of Shenzhen HSBC.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
8.	Complex Building B1 East Block located at Yingyue Xincun Sanzao County Jinwan District Zhuhai City Guangdong Province The PRC	The property comprises a parcel of land with a site area of approximately 602.94 sq.m. on which is constructed a complex building completed in 1998. The building has a gross floor area of approximately 1,007.21 sq.m. The land use rights of the property were granted for a term of 70 years expiring on 17 August 2067 for residential use.	The property is currently occupied by the Group for residential purpose except for a portion which is rented to an independent third party *(Note 3)*.	1,813,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Yue Fang Di Zheng Zi No. C0900212 issued by the Government of Guangdong Province, the land use rights of a parcel of land with a site area of approximately 602.94 sq.m. and a building with a gross floor area of approximately 1,007.21 sq.m. are vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. Pursuant to a Building Tenancy Agreement entered into between United Laboratories Zhuhai and Wu Xiaoteng, an independent third party of the Group, dated 10 January 2002, a unit with a gross floor area of approximately 98 sq.m. was rented to Wu Xiaoteng for a term of 6 years commencing from 18 February 2002 and expiring on 17 February 2008 at a monthly rental of RMB1,600, exclusive of water, electricity and communication charges.

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The land use rights of a parcel of land with a site area of approximately 602.94 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai;

   (ii) The building ownership rights of a building with a gross floor area of approximately 1,007.21 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai;

   (iii) The property is subject to mortgage in favour of Shenzhen HSBC; and

   (iv) The Tenancy Agreement is valid, binding and enforceable under the relevant PRC laws and United Laboratories Zhuhai has the legal rights to lease the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
9.	Unit 403 of Entrance 1 of Block 116-1 located at Tieling Road Shenhe District Shenyang City Liaoning Province The PRC	The property comprises a unit on level 4 of an 8-storey composite building completed in about 1998. The property has a gross floor area of approximately 119.09 sq.m.	The property is currently occupied by the Group for office purpose.	429,000

Notes:

1. Pursuant to a Building Ownership Certificate – Shen Fang Quan Zheng Shi Ban Zi No. 000125 issued by the Shenyang Building Management Bureau, a unit with a gross floor area of approximately 119.09 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 119.09 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
10.	Unit 603 of Block B of No. 3 Building located at Jingdi Garden No. 6 Daping Dahuang Road Yuzhong District Chongqing The PRC	The property comprises a unit on level 6 of a 6-storey composite building completed in about 1996. The property has a gross floor area of approximately 82.96 sq.m.	The property is currently occupied by the Group for office purpose.	240,000

Notes:

1. Pursuant to a Real Estate Title Certificate – 2007 Zi No. 05057 issued by the Chongqin Real Estate Management Bureau, a unit with a gross floor area of approximately 82.96 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 82.96 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
11.	Unit 13-1 of Yinlong Mansion located at No. 1 Xiaonan Road Liuzhou City Guangxi Zhuang Autonomous Region The PRC	The property comprises a unit on level 13 of a 26-storey composite building completed in about 1999. The property has a gross floor area of approximately 103.13 sq.m.	The property is currently occupied by the Group for office purpose.	309,000

Notes:

1. Pursuant to a Building Ownership Certificate – Liu Fang Quan Zheng Zi No. 1026375 issued by the Liuzhou Building Management Bureau, a unit with a gross floor area of approximately 103.13 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 103.13 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
12.	Unit 201 of Entrance 1 of No. 113 Building located at Region 1 of Huizhong Beili Xiaoqu Yayun Village Chaoyang District Beijing The PRC	The property comprises a unit on level 2 of a 7-storey composite building completed in about 1997. The property has a gross floor area of approximately 111.54 sq.m.	The property is currently occupied by the Group for office purpose.	803,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zhao Qi Zi No. 00469 issued by the Beijing Real Estate Management Bureau, a unit with a gross floor area of approximately 111.54 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 111.54 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
13.	Unit 202 of Entrance 2 of No. 2 Building located at Guofang Road No. 48 Yard Wacang Village Kunming City Yunnan Province The PRC	The property comprises a unit on level 2 of a 7-storey composite building completed in about 1998. The property has a gross floor area of approximately 109 sq.m.	The property is currently occupied by the Group for office purpose.	273,000

Notes:

1. Pursuant to a Building Ownership Certificate – Kunming City Fang Quan Zheng Zi No. 9809041 issued by Liuzhou Building Management Bureau, a unit with a gross floor area of approximately 109 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 109 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
14.	Units 301 and 302 of Entrance 4 of No. 73 Building located at No. 7 Block of Zhaohui Hangzhou City Zhejiang Province The PRC	The property comprises 2 units on level 3 of a 7-storey composite building completed in about 1992. The property has a total gross floor area of approximately 130.2 sq.m.	The property is currently occupied by the Group for office purpose.	1,042,000

Notes:

1. Pursuant to 2 Building Ownership Certificates – Hang Fang Quan Zheng Xia Yi No. 0044298 and 0044299 issued by the Hangzhou Real Estate Management Bureau, 2 units with a total gross floor area of approximately 130.2 sq.m. are vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of 2 units with a total gross floor area of approximately 130.2 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
15.	Unit D43 of No. F17 Building located at Block Xinfa Nangang District Harbin City Heilongjiang Province The PRC	The property comprises a unit on level 4 of an 8-storey composite building completed in about 1997. The property has a gross floor area of approximately 98.37 sq.m.	The property is currently occupied by the Group for office purpose.	246,000

Notes:

1. Pursuant to a Building Ownership Certificate – Ha Fang Quan Zheng Nan Zi No. 00001937 issued by the Liuzhou Building Management Bureau, a unit with a gross floor area of approximately 98.37 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 98.37 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
16.	Unit 302 of Entrance 2 of No. 3 Building Tianfu Garden located at No. 6 Xingfu Road Urumchi City Sinkiang Uigur Autonomous Region The PRC	The property comprises a unit on level 3 of a 7-storey composite building completed in about 2001. The property has a gross floor area of approximately 116.247 sq.m.	The property is currently occupied by the Group for office purpose.	214,000

Notes:

1. Pursuant to a Building Ownership Certificate – Wu Shi Tianshan District Zi No. 2006096397 issued by the Urumchi Real Estate Ownership Management Bureau, a unit with a gross floor area of approximately 116.247 sq.m. are vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 116.247 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
17.	Unit 1501 of Block A of Huajia Mansion located at No. 52 Shangdong Road South District Qingdao City Shangdong Province The PRC	The property comprises a unit on level 15 of a 22-storey composite building completed in about 1995. The property has a gross floor area of approximately 106.92 sq.m.	The property is currently occupied by the Group for office purpose.	567,000

Notes:

1. Pursuant to a Building Ownership Certificate – Qing Fang No. 5144 issued by the Qingdao Building Management Bureau, a unit with a gross floor area of approximately 106.92 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 106.92 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
18.	Unit 2001 of Olympiad Mansion located at No. 28 Fuzhou Road Donghu District Nanchang City Jiangxi Province The PRC	The property comprises a unit on level 20 of a 20-storey composite building completed in about 2000. The property has a gross floor area of approximately 121.08 sq.m.	The property is currently occupied by the Group for office purpose.	363,000

Notes:

1. Pursuant to a Building Ownership Certificate – Hong Fang Quan Zheng Dong Zi No. 1000091460 issued by the Nanchang Building Management Bureau, a unit with a gross floor area of approximately 121.08 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 121.08 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
19.	Unit 2C of Tianfu Ge located at Huafuyuan No. 3 Cangfang Street Wuyi Road Gulou District Fuzhou City Fujian Province The PRC	The property comprises a unit on level 2 of a 9-storey composite building completed in about 1990. The property has a gross floor area of approximately 89.86 sq.m.	The property is currently occupied by the Group for office purpose.	449,000

Notes:

1. Pursuant to a Building Ownership Certificate – Rong Fang Quan Zheng R Zi No. 9902318 issued by the Fuzhou Real Estate Management Bureau, a unit with a gross floor area of approximately 89.86 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 89.86 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
20.	Unit 1204 of Yuandong Apartment Block located at No. 1 Renmin Zhong Road Changsha City Hunan Province The PRC	The property comprises a unit on level 12 of a 31-storey composite building completed in about 1998. The property has a gross floor area of approximately 110.26 sq.m.	The property is currently occupied by the Group for office purpose.	419,000

Notes:

1. Pursuant to a Building Ownership Certificate – Chang Fang Quan Zheng Yuhua Zi No. 00576167 issued by the Changsha Building Ownership Management Bureau, a unit with a gross floor area of approximately 110.26 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 110.26 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
21.	Unit 12-03 of Limin Mansion located at No. 123 Liji Bei Road Qiaokou District Hankou Wuhan City Hubei Province The PRC	The property comprises a unit on level 12 of a 13-storey composite building completed in about 1996. The property has a gross floor area of approximately 120.73 sq.m.	The property is currently occupied by the Group for office purpose.	362,000

Notes:

1. Pursuant to a Building Ownership Certificate – Wu Fang Quan Zheng Qiao Zi No. 9909951 issued by the Wuhan Real Estate Bureau, a unit with a gross floor area of approximately 120.73 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 120.73 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
22.	Unit 201 of Entrance 1 of No. 15 Building located at Feicui Park Yongleyuan Block Taiyuan City Shanxi Province The PRC	The property comprises a unit on level 2 of a 7-storey composite building completed in about 1998. The property has a gross floor area of approximately 106.58 sq.m.	The property is currently occupied by the Group for office purpose.	318,000

Notes:

1. Pursuant to a Building Ownership Certificate – Fang Quan Zheng Jing Zi No. 00151341 issued by the Taiyuan Real Estate Bureau, a unit with a gross floor area of approximately 106.58 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 106.58 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
23.	Unit 1408 of Entrance 1 of Block A located at No. 11 Yard Kangfu Qian Street Erqi District Zhengzhou City Henan Province The PRC	The property comprises a unit on level 4 of a 7-storey composite building completed in about 2001. The property has a gross floor area of approximately 92.02 sq.m.	The property is currently occupied by the Group for office purpose.	317,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zheng Fang Quan Zheng Zi No. 9801136487 issued by the Zhenzhou Real Estate Management Bureau, a unit with a gross floor area of approximately 92.02 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 92.02 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
24.	Unit J on Level 11 and 12 of Entrance 2 located at No. 351 Minzheng Street Shahekou District Dalian City Liaoning Province The PRC	The property comprises a unit on level 11 and 12 of a 23-storey composite building completed in about 1998. The property has a gross floor area of approximately 118.62 sq.m.	The property is currently occupied by the Group for office purpose.	522,000

Notes:

1. Pursuant to a Building Ownership Certificate – Da Fang Quan Zheng Sha Dan Zi No. 1999505004 issued by the Dalian Building Management Bureau, a unit with a gross floor area of approximately 118.62 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 118.62 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
25.	Unit 802 of Block A of Chuangjia Mansion located at No. 188 Xiyi Road Xi'an City Shannxi Province The PRC	The property comprises a unit on level 8 of an 11-storey composite building completed in about 1997. The property has a gross floor area of approximately 112.37 sq.m.	The property is currently occupied by the Group for office purpose.	539,000

Notes:

1. Pursuant to a Building Ownership Certificate – Xian City Fang Quan Zheng Xin Cheng Qu Zi No. 54304 issued by the Xian Building Management Bureau, a unit with a gross floor area of approximately 112.37 sq.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 112.37 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
26.	Unit 301 of Entrance 1 of Block A located at Tianyang Apartment Block Guiyang City Guizhou Province The PRC	The property comprises a unit on level 3 of a 9-storey composite building completed in about 1998. The property has a gross floor area of approximately 101.86 sq.m.	The property is currently occupied by the Group for office purpose.	316,000

Notes:

1. Pursuant to a Building Ownership Certificate – Zhu Fang Quan Zheng Yun Yang Zi No. 003269 issued by the Guiyang Real Estate Management Bureau, a unit with a gross floor area of approximately 101.86 q.m. is vested in The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai").

2. United Laboratories Zhuhai is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The building ownership rights of a unit with a gross floor area of approximately 101.86 sq.m. are legally vested in United Laboratories Zhuhai and can be transferred, sublet, mortgaged or handled by United Laboratories Zhuhai; and

   (ii) The property is not subject to mortgage or any other encumbrances.

VALUATION CERTIFICATE

Group III – Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
27.	Levels 1 to 8 of Block B, C and D of Building Bing located at Chengfu Garden Sanzai Yuyue Village Sanzao Town Zhuhai City Guangdong Province The PRC	The property comprises the whole 8-storey complex building completed in about 2002. The property has a total gross floor area of approximately 4,000 sq.m. The property is leased from an independent third party for a term of 2 years commencing from 26 April 2005 and expiring on 25 April 2007 at a monthly rental of RMB16,000, exclusive of water, electricity and communication charges. Pursuant to a new Tenancy Agreement, the property was rented to the Group for a term of 3 years commencing 25 April 2007 and expiring on 24 April 2010 at a monthly rental of RMB18,000, exclusive of water, electricity and communication charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai") and Lin Fateng (the "Lessor"), an independent third party of the Group, dated 6 April 2005, the property with a total gross floor area of approximately 4,000 sq.m. was rented to United Laboratories Zhuhai for a term of 2 years commencing from 26 April 2005 and expiring on 25 April 2007 at a monthly rental of RMB16,000, exclusive of water, electricity and communication charges.

2. Pursuant to a new Tenancy Agreement entered into between United Laboratories Zhuhai and the Lessor dated 16 May 2007, the property was rented to United Laboratories Zhuhai for a term of 3 years commencing from 25 April 2007 and expiring on 24 April 2010 at a monthly rental of RMB18,000, exclusive of water, electricity and communication charges.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Group has not provided with any proper title certificates of the property;

   (ii) As such, the Tenancy Agreement would be invalid if there is any Building Ownership entanglement caused by the third party; and

   (iii) As confirmed by the Company, the property is used as residential purpose for the Company. It is easy for the Company to arrange for an alternative accommodation for its staff.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
28.	15 units of a complex building located at Shiliu Wei Anfu Village Tanzhou Town Zhongshan City Guangdong Province The PRC	The property comprises 15 units of a 6-storey building completed in about 2004. The property has a total gross floor area of approximately 418.5 sq.m. The property is leased from an independent third party for a term commencing from 1 January 2007 and expiring on 31 December 2007 at a monthly rental of RMB3,600, exclusive of water and electricity charges.	The property is occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Building Tenancy Agreement entered into between United Laboratories Zhuhai (Zhongshan Branch Company) and Zheng Guocheng (the "Lessor"), an independent third party of the Group, dated 1 January 2007, 15 units with a total gross floor area of approximately 418.5 sq.m. were rented to United Laboratories Zhuhai (Zhongshan Branch Company) for a term commencing from 1 January 2007 and expiring on 31 December 2007 at a monthly rental of RMB3,600, exclusive of water and electricity charges.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Group has just provided with the Stated-owned Land Use Rights Certificate and has not provided with any Building Ownership Certificate of the property and the PRC legal advisers cannot confirm whether the leased property is vested in the Lessor;

   (ii) As such, the Tenancy Agreement would be invalid if there is any Building Ownership entanglement caused by the third party; and

   (iii) As confirmed by the Company, the property is used as residential purpose for the Company. It is easy for the Company to arrange for an alternative accommodation for its staff.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
29.	Levels 2 to 6 of Yulin Dormitory located at Tingjiao Hill Yulin Village Sanzao Town Zhuhai City Guangdong Province The PRC	The property comprises Levels 2 to 6 of a 6-storey building completed in about 2006. The property has a total gross floor area of approximately 2,800 sq.m. The property is leased from an independent third party for a term of 2 years commencing from 1 July 2006 and expiring on 30 June 2008 at a monthly rental of RMB21,000, exclusive of water and electricity charges.	The property is occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between The United Laboratories Limited Zhuhai ("United Laboratories Zhuhai") and Yulin Trade Limited (the "Lessor"), an independent third party of the Group, dated 19 July 2006, 140 units with a total gross area of approximately 2,800 sq.m. were rented to United Laboratories Zhuhai for a term of 2 years commencing from 1 July 2006 and expiring on 30 June 2008 at a monthly rental of RMB21,000, exclusive of water and electricity charges.

2. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Group has not provided with any proper title certificates of the property and the PRC legal advisers cannot confirm whether the leased property is vested in the Lessor;

   (ii) As such, the Tenancy Agreement would be invalid if there is any Building Ownership entanglement caused by the third party; and

   (iii) As confirmed by the Company, the property is used as residential purpose for the Company. It is easy for the Company to arrange for an alternative accommodation for its staff.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007 *RMB*
30.	Unit 405 of Block 7 Boli Building located at International Service Centre Huisong Mountain Shuwantou Zhuhai City Guangdong Province The PRC	The property comprises a unit of a 9-storey building completed in about early 1990s. The property has a gross floor area of approximately 123 sq.m. The property is leased from an independent third party for a term of 3 months commencing from 1 April 2007 and expiring on 30 June 2007 at a monthly rental of RMB25 per sq.m., exclusive of water, electricity and communication charges.	The property is occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Zhuhai Jindefu Enterprise Planning Company Limited ("Zhuhai Jindefu") and Zhuhai Nanyou Hotel (the "Lessor"), an independent third party of the Group, dated 8 March 2007, a unit with a gross floor area of approximately 123 sq.m. was rented to Zhuhai Jindefu for a term of 3 months commencing from 1 April 2007 and expiring on 30 June 2007 at a monthly rental of RMB25 per sq.m., exclusive of water, electricity and communication charges.

2. Zhuhai Jindefu is a wholly-owned subsidiary of the Company.

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:

   (i) The Tenancy Agreement is valid, binding and enforceable under the relevant PRC laws.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 March 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 6 March 2006. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to

the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution – majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is

in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a

member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance

with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 28 March 2006.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the

occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY

Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 March 2006. The Company has established a place of business in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 1 March 2007. Mr Choy and Mr Leung, both executive Directors, have been appointed as agents of the Company for the acceptance of service of process and notices. The address for service of process for the Company is 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong. As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law, its articles of association and the relevant laws of the Cayman Islands. A summary of various provisions of the Articles and certain aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

Changes in share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 38,000,000 shares with a nominal value of HK$0.01 each. On 6 March 2006, one share of HK$0.01 in the capital of the Company was allotted and issued credited as fully paid to Mr Choy.

By a written resolution of the sole shareholder of the Company dated 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 additional 3,762,000,000 Shares ranking pari passu in all respects with the existing Shares.

On 25 May 2007, in consideration of the transfer of the entire share capital of United Laboratories (BVI) Holding by Mr Choy to the Company, nine hundred and ninety nine (999) Shares were allotted to Mr Choy.

Immediately following completion of the Share Offer, the authorised share capital of the Company will be HK$38,000,000 divided into 3,800,000,000 Shares of which 1,200,000,000 Shares will be allotted and issued fully paid or credited as fully paid, and 2,600,000,000 Shares will remain unissued. Other than any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of its incorporation.

Written resolutions of the sole shareholder of the Company passed on 25 May 2007

By written resolutions of the sole shareholder of the Company passed on 25 May 2007:

(a) the Company approved and adopted the Articles;

(b) 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 Shares;

(c) conditional on the Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of those agreements or otherwise, in each case on or before 15 June 2007:

(i) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;

(ii) further conditional upon the Listing Committee granting listing of, and permission to deal in, the Scheme Mandate Shares (as defined herein) falling to be issued pursuant to the exercise of the options granted under the Share Option Scheme, the rules of the Share Option Scheme were approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and

(iii) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise a sum of HK$8,999,990 standing to the credit of the share premium account of the Company by applying such sum in paying up in full 899,999,000 Shares for the allotment and issue of 899,999,000 Shares to BVI Intermediate Company (being the shareholder of the Company whose name appeared on the register of members of the Company at the close of business on 1 June 2007);

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share scheme of the Company or any shares of the Company allotted in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles or pursuant to a specific authority granted by the shareholders of the Company or pursuant to the Share Offer or the Capitalisation Issue, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer (including the Shares which may be issued pursuant to the Capitalisation Issue) and the Capitalisation Issue, such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; and

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting;

(e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of the Company in issue immediately following completion of the Share Offer (including the Shares which may be issued pursuant to the Capitalisation Issue), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; and

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting;

(f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue.

Corporate reorganisation

In preparation for the listing of Shares on the Stock Exchange, the companies comprising the Group underwent a reorganisation and the Company became the holding company of the Group. The corporate reorganisation involved the following:

- Acquisition by Zhuhai Lebang on 20 January 2006 of the entire equity interest in Zhuhai Jindefu from the then shareholders of Zhuhai Jindefu. Subsequent to such acquisition, Zhuhai Jindefu became a direct wholly-owned subsidiary of Zhuhai Lebang.

- Acquisition by Zhuhai Jindefu on 23 January 2006 of the entire equity interest in Zhuhai Kangzhile as to 13% from Ms Peng and as to 87% from Ms Shum. Subsequent to such acquisition, Zhuhai Kangzhile became a direct wholly-owned subsidiary of Zhuhai Jindefu.

- Acquisition of 40% and 20% equity interest in United Laboratories Chengdu by United Laboratories Hong Kong from United Laboratories Zhuhai on 24 July 2003 and 16 February 2004 respectively. Following the above acquisitions, United Laboratories Chengdu became a direct wholly-owned subsidiary of United Laboratories Hong Kong.

- Acquisition of all the rights and obligations attached to the 75% and 25% equity interest in Zhuhai Wanbang on 4 September 2006 by United Laboratories Zhuhai and Zhuhai Lebang respectively from the then shareholders of Zhuhai Wanbang. United Laboratories Zhuhai and Zhuhai Lebang became registered shareholders of Zhuhai Wanbang on 14 October 2006.

- Acquisition by Bear World on 12 December 2006 of 1.5% equity interest in United Laboratories Zhuhai from Mr Tsoi. Together with its initial 48% shareholding in United Laboratories Zhuhai, Bear World became a 49.5% shareholder of United Laboratories Zhuhai. Following the above acquisition, United Laboratories Zhuhai became an indirect wholly-owned subsidiary of the Group (through the direct shareholding held as to 49.5% by Bear World, as to 3% by Zhuhai Jindefu, as to 46.0% by Zhuhai Kangzhile and as to 1.5% by Zhongshan Jinyi Food).

- Acquisition of the entire issued share capital of United Laboratories (BVI) Holding by the Company on 25 May 2007. Following the above acquisition, the Company became the holding company of the Group.

Changes in share capital of the subsidiaries of the Group

The following alterations in the share capital of the subsidiaries of the Company have taken place within the two years preceding the date of this prospectus:

(a) On 1 July 2005, United Laboratories Chengdu obtained the approval from 四川省商務廳 ("Sichuan Provincial Commerce Department") for the increase of its registered capital from RMB96,000,000 to RMB250,000,000.

(b) On 12 October 2004, Zhuhai Lebang obtained the approval from 珠海國家高新技術產業開發區管委 ("Zhuhai State High and New Technology Development Zone Management Committee") for the increase of its registered capital from HK$2,000,000 to HK$12,000,000.

Save as aforesaid, there has been no other alteration in the share capital of the subsidiaries of the Company in the two years preceding the date of this prospectus.

Repurchase by the Company of its own securities

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their securities on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to written resolutions of the sole shareholders of the Company passed on 25 May 2007, the Repurchase Mandate was given to the Directors authorising the Directors to exercise all the powers of the Company to purchase on the Stock Exchange, or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose, Shares representing up to 10% of the total nominal amount of the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer and such mandate is to expire at the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held, or when revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) Connected parties

The Listing Rules prohibit a company from knowingly repurchasing securities of a company on the Stock Exchange from a "connected person", which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or an associate (as defined in the Listing Rules) of any of them and a connected person shall not knowingly sell his securities to the company.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or earnings per Share and will be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 1,200,000,000 Shares in issue after completion of the Share Offer and the Capitalisation Issue could result in up to 120,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules, the Companies Law and other applicable laws of the Cayman Islands.

The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(e) General

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is approved to sell any Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, the Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

The Company has not repurchased any Shares within the six months preceding the date of this prospectus.

FURTHER INFORMATION ABOUT THE BUSINESS

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) an equity transfer agreement (in Chinese) dated 8 June 2005 and entered into between Huang Jin Chang (黃金常), Ma Xin Yan (馬新艷), United Laboratories Zhuhai and Zhuhai Lebang pursuant to which (i) Huang Jin Chang sold, and United Laboratories Zhuhai acquired, a 50% equity interest in Zhuhai Wanbang held by Huang Jin Chang at a consideration of RMB6,150,000; (ii) Ma Xin Yan sold, and United Laboratories Zhuhai acquired, a 25% equity interest in Zhuhai Wanbang held by Ma Xin Yan at a consideration of RMB3,075,000; and (iii) Ma Xin Yan sold, and Zhuhai Lebang acquired, a 25% equity interest in Zhuhai Wanbang held by Ma Xin Yan at a consideration of RMB3,075,000;

(b) an equity transfer agreement (in Chinese) dated 13 January 2006 and entered into between Ning Ya Lu (寧亞祿) and Su Quan Xing (蘇銓興) as sellers and Zhuhai Lebang as purchaser pursuant to which Ning Ya Lu sold, and Zhuhai Lebang acquired, a 66.67% equity interest in Zhuhai Jindefu held by Ning Ya Lu at a consideration of RMB10,000,000 and Su Quan Xing sold, and Zhuhai Lebang acquired, a 33.33% equity interest in Zhuhai Jindefu held by Su Quan Xing at a consideration of RMB5,000,000;

(c) an equity transfer agreement (in Chinese) dated 20 January 2006 and entered into between Ms Shum and Ms Peng as sellers and Zhuhai Jindefu as purchaser pursuant to which Ms Shum sold, and Zhuhai Jindefu acquired, an 87% equity interest in Zhuhai Kangzhile held by Ms Shum at a consideration of RMB217,500,000 and Ms Peng sold, and Zhuhai Jindefu acquired, a 13% equity interest in Zhuhai Kangzhile held by Ms Peng at a consideration of RMB32,500,000;

(d) an equity transfer agreement (in Chinese) dated 9 April 2006 and entered into between Mr Tsoi as seller and Bear World as purchaser pursuant to which Mr Tsoi sold, and Bear World acquired, a 1.5% equity interest in United Laboratories Zhuhai held by Mr Tsoi at a consideration of RMB9,600,000;

(e) a reorganisation agreement dated 25 May 2007 and made between the Company, Mr Choy, BVI Intermediate Company and the members of the Choy Family pursuant to which, among other things, the Company acquired the entire share capital of United Laboratories (BVI) Holding in consideration of the allotment and issue of 999 Shares by the Company, credited as fully paid, to Mr Choy;

(f) a non-competition undertaking dated 25 May 2007 and executed by Mr Choy (an executive Director) in favour of the Company;

(g) a non-competition undertaking dated 25 May 2007 and executed by Ms Peng (an executive Director) in favour of the Company;

(h) a non-competition undertaking dated 25 May 2007 and executed by Mr Leung (an executive Director) in favour of the Company;

(i) a non-competition undertaking dated 25 May 2007 and executed by Ms Choy (a non-executive Director) in favour of the Company;

(j) a deed of indemnity dated 1 June 2007 and executed by the Choy Family and BVI Intermediate Company in favour of the Group containing, among other things, the indemnities referred to in the paragraph headed "Estate duty and tax indemnity" in the section headed "Other information" in this Appendix; and

(k) the Public Offer Underwriting Agreement dated 1 June 2007 and entered into among, inter alia, the Company and the Public Offer Underwriter.

Intellectual property rights

Trade marks

As at the Latest Practicable Date, the Group had registered the following trade marks in the PRC:

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
	PRC	30 (mint candies; vitamin C soluble tablets; glucose calcium tablets; sweets; herbs (sweets); ginseng sweets; non-medical use honey; spirulina (non-medical use nutritional products); non-medical use nutrients; non-medical use nutritional capsules)	3044591	United Laboratories Hong Kong, United Laboratories Zhuhai and United laboratories Zhuhai (Zhongshan Branch Company)	13 March 2013
	PRC	5 (medical sweets; medical nutritional food; medical sweets; medical nutritional drinks; medical nutritional products; infant food; medical nutritional additives; sugar; protein milk; medical white classic food)	3044592	United Laboratories Hong Kong, United Laboratories Zhuhai and United laboratories Zhuhai (Zhongshan Branch Company)	13 April 2013
赛福宁	PRC	5 (human medicine; all kinds of needles, pills, capsule substance, antibiotics)	1250268	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2009
赛福必	PRC	5 (human medicine; all kinds of needles, pills, capsule substance, antibiotics)	1250269	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2009
赛福隆	PRC	5 (human medicine; all kinds of needles, pills, capsule substance, antibiotics)	1250270	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2009

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
赛福定	PRC	5 (human medicine; all kinds of needles, pills, capsule substance, antibiotics)	1250271	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2009
希普康	PRC	5 (human medicine; all kinds of needles, pills, capsule substance, antibiotics)	1250272	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2009
希普生	PRC	5 (human medicine; all kinds of needles, pills, capsule substance, antibiotics)	1250273	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2009
泰洛其	PRC	5 (human medicine; cough syrup; chemical medicine substance; medical chemical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1295228	United Laboratories Zhuhai (Zhongshan Branch Company)	20 July 2009
刻 免	PRC	5 (human medicine; medical diagnostic substance; chemical medicine substance; medical chemical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1305212	United Laboratories Zhuhai (Zhongshan Branch Company)	20 August 2009

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
赛乐林	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1340295	United Laboratories Zhuhai (Zhongshan Branch Company)	6 December 2009
赛乐欣	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1340296	United Laboratories Zhuhai (Zhongshan Branch Company)	6 December 2009
灭特尼	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1352794	United Laboratories Zhuhai (Zhongshan Branch Company)	13 January 2010
旨必青	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1352796	United Laboratories Zhuhai (Zhongshan Branch Company)	13 January 2010

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
阿思乐	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1367732	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2010
缓士芬	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1367733	United Laboratories Zhuhai (Zhongshan Branch Company)	27 February 2010
赛洛必妥	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1389390	United Laboratories Zhuhai (Zhongshan Branch Company)	27 April 2010
联邦赛福松	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1398419	United Laboratories Zhuhai (Zhongshan Branch Company)	20 May 2010

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦赛福来	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1398420	United Laboratories Zhuhai (Zhongshan Branch Company)	20 May 2010
联邦赛福达	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1398421	United Laboratories Zhuhai (Zhongshan Branch Company)	20 May 2010
联邦倍康	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1398422	United Laboratories Zhuhai (Zhongshan Branch Company)	20 May 2010
联邦赛福安	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1398423	United Laboratories Zhuhai (Zhongshan Branch Company)	20 May 2010

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦读书饮	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1404448	United Laboratories Zhuhai (Zhongshan Branch Company)	6 June 2010
倍松	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1407402	United Laboratories Zhuhai (Zhongshan Branch Company)	13 June 2010
联邦阿乐仙	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1410428	United Laboratories Zhuhai (Zhongshan Branch Company)	20 June 2010
联邦赛福美	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1413373	United Laboratories Zhuhai (Zhongshan Branch Company)	27 June 2010

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦他唑仙	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1413374	United Laboratories Zhuhai (Zhongshan Branch Company)	27 June 2010
联邦希普维	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1413390	United Laboratories Zhuhai (Zhongshan Branch Company)	27 June 2010
联邦希普盖	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1413391	United Laboratories Zhuhai (Zhongshan Branch Company)	27 June 2010
联邦赛福欣	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1416368	United Laboratories Zhuhai (Zhongshan Branch Company)	6 July 2010

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
琵青爽	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1437355	United Laboratories Zhuhai (Zhongshan Branch Company)	27 August 2010
联邦倍克	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1488613	United Laboratories Zhuhai (Zhongshan Branch Company)	13 December 2010
联邦倍新	PRC	5 (medical medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1488614	United Laboratories Zhuhai (Zhongshan Branch Company)	13 December 2010
联邦菲迪乐	PRC	5 (medical substance; chemical medicine substance; medical herbs; medical biological substance; chemical substance for medicine use; medical drinks; medical chemical substance; Chinese medicine; all types of needle substance; biochemical medicine)	1520469	United Laboratories Zhuhai (Zhongshan Branch Company)	13 February 2011

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦清风	PRC	5 (medical substance; chemical medicine substance; medical herbs; medical biological substance; chemical substance for medicine use; medical drinks; medical chemical substance; Chinese medicine; all types of needle substance; biochemical medicine)	1520470	United Laboratories Zhuhai (Zhongshan Branch Company)	13 February 2011
联邦左福康	PRC	5 (medical medicine; medical diagnostic substance; chemical substance for medicine use; medical substance; medical herbs; medical biological substance; biochemical medicine; medical tea; medical nutritional drinks; medical nutritional food)	1544528	United Laboratories Zhuhai (Zhongshan Branch Company)	27 March 2011
联邦绿色汉方	PRC	5 (medical nutritional food; medical nutritional drinks; medical nutritional products; Chinese medicine; water; human medicine; medicine for the treatment of headache; ointment for medical use; soluble ginseng; biochemical medicine)	1596404	United Laboratories Zhuhai (Zhongshan Branch Company)	6 July 2011
益 天 智	PRC	5 (human medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; biological substance for medicine use; biochemical medicine; Chinese medicine; medical nutritional drinks; medical nutritional food)	1608543	United Laboratories Zhuhai (Zhongshan Branch Company)	27 July 2011

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
慧天姿	PRC	5 (human medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; biological substance for medicine use; biochemical medicine; Chinese medicine; medical nutritional drinks; medical nutritional food)	1608544	United Laboratories Zhuhai (Zhongshan Branch Company)	27 July 2011
盛天健	PRC	5 (human medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; biological substance for medicine use; biochemical medicine; Chinese medicine; medical nutritional drinks; medical nutritional food)	1608545	United Laboratories Zhuhai (Zhongshan Branch Company)	27 July 2011
联邦读书宝	PRC	5 (human medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; biological substance for medicine use; biochemical medicine; Chinese medicine; medical nutritional drinks; medical nutritional food)	1697095	United Laboratories Zhuhai (Zhongshan Branch Company)	13 January 2012
联邦克立停	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1906151	United Laboratories Zhuhai (Zhongshan Branch Company)	20 September 2012

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦亮晶晶	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1906158	United Laboratories Zhuhai (Zhongshan Branch Company)	20 September 2012
冰爽	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1906433	United Laboratories Zhuhai (Zhongshan Branch Company)	20 September 2012
联邦克立安	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1907072	United Laboratories Zhuhai (Zhongshan Branch Company)	6 October 2012
联邦止克路	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1907245	United Laboratories Zhuhai (Zhongshan Branch Company)	27 September 2012

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦金世纪	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional products; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1974036	United Laboratories Zhuhai (Zhongshan Branch Company)	20 October 2012
联邦舒他仙	PRC	5 (human medicine; biochemical medicine; antiseptics; biological substance for medicine use; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1976720	United Laboratories Zhuhai (Zhongshan Branch Company)	6 December 2012
晶莹	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical diagnostic substance; Chinese medicine)	2022301	United Laboratories Zhuhai (Zhongshan Branch Company)	27 October 2012
联邦金世纪	PRC	30 (Ice-cream; tea; seasoning; bean flour; instant rice; instant noodles; non-medical nutritional capsules; non-medical nutritional liquids; pastries; wheat products; yeast; coffee; fruit pieces; vegetable pieces; edible starch products; edible fragrances; sugar)	1965762	United Laboratories Zhuhai (Zhongshan Branch Company)	20 December 2012

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦宝世纪	PRC	32 (Tea (water); fruit juices; mineral water; beer; grape juice; soft drinks; yoghurt (fruit-made, non-dairy); water (drinks); fruit drinks (non-alcoholic); non-alcoholic drinks)	1981013	United Laboratories Zhuhai (Zhongshan Branch Company)	6 December 2012
聯邦	PRC	5 (human medicine; chemical medicine substance; medical chemical substance; medical herbs; biological substance for medicine use; biochemical medicine; pectin for medicine use; medical tea; medical nutritional drinks; medical nutritional food)	1182339	United Laboratories Zhuhai	13 June 2008
联邦奈特星	PRC	5 (human medicine; medical diagnostic substance; medical chemical substance; medical substance; medical herbs; biological substance for medicine use; biochemical medicine; Chinese medicine; medical nutritional drinks; medical nutritional food)	3428602	United Laboratories Zhuhai and United Laboratories Zhuhai (Zhongshan Branch Company)	6 October 2014
联邦强益泰	PRC	5 (human medicine; chemical medicine substance; medical chemical substance; medical herbs; biological substance for medicine use; biochemical medicine; pectin for medicine use; medical tea; medical nutritional drinks; medical nutritional food)	3444238	United Laboratories Zhuhai and United Laboratories Zhuhai (Zhongshan Branch Company)	13 October 2014

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦正通高	PRC	5 (human medicine; chemical medicine substance; medical chemical substance; medical herbs; biological substance for medicine use; biochemical medicine; Chinese medicine; medical tea; medical nutritional drinks; medical nutritional food)	3390094	United Laboratories Zhuhai	27 July 2014
联 邦	PRC	44 (steam bath; beauty salon; massage; rental of hygiene facilities)	3313300	United Laboratories Zhuhai and United Laboratories Zhuhai (Zhongshan Branch Company)	20 July 2014
联邦雪麦通	PRC	5 (human medicine; chemical medicine substance; medical chemical substance; medical herbs; biological substance for medicine use; biochemical medicine; pectin for medicine use)	3296850	United Laboratories Zhuhai	27 March 2014
联邦	PRC	5 (skin care medicine; capsule for medical use; antiseptic (medical use); medical drinks; 醫用酶製劑)	1908033	United Laboratories Zhuhai	20 January 2014
联邦多维他	PRC	5 (human medicine; chemical medicine substance; medical chemical substance; medical herbs; biological substance for medicine use; biochemical medicine; pectin for medicine use; medical tea; medical nutritional drinks; medical nutritional food)	3142477	United Laboratories Zhuhai	13 December 2013

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
联邦	PRC	5 (human medicine; biochemical medicine; medical biological substance; medical substance; medical chemical substance; medical plants; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	1911706	United Laboratories Zhuhai	6 August 2012
联邦正通宝	PRC	5 (human medicine; chemical medical substance; medical chemical substance; medical herbs; medical biological substance; biochemical medicine; medical pectin; medical tea; medical nutritional drinks; medical nutritional food)	3560392	United Laboratories Zhuhai	6 August 2015
安必仙	PRC	5 (human medicine) (人用藥)	631604	The United Laboratories, Limited	27 February 2013
阿莫仙	PRC	5 (human medicine)	631605	The United Laboratories, Limited	27 February 2013
 (指定顏色)	PRC	5 (human medicine)	631606	The United Laboratories, Limited	27 February 2013
PHETICOL (指定顏色)	PRC	5 (human medicine)	767027	The United Laboratories, Limited	20 September 2015
菲迪克 (指定顏色)	PRC	5 (human medicine)	767028	The United Laboratories, Limited	20 September 2015

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
高思通 Costop	PRC	5 (human medicine; chemical medicine substance; medical chemical substance; medical herbs; medical biological substance; biochemical medicine; pectin for medicine use; medical tea; medical nutritional drinks; medical nutritional food)	1196322	The United Laboratories, Limited	6 August 2008
聯邦	PRC	42 (restaurants; printing industry; lodging (hotels; hostels with meals provided); medical support; medical consultation; research on chemicals; professional consultation on non-trading business; technical research; chemical research; chemical analysis)	1199808	The United Laboratories, Limited, United Laboratories Zhuhai and United laboratories Zhuhai (Zhongshan Branch Company)	13 August 2008
聯邦	PRC	16 (printed matter; printed charts; catalogues; photos; printed sculptures; posters; lithographs; sculptures (graphics); lithographic handicrafts; framed or non-framed printings)	1204461	The United Laboratories, Limited	6 September 2008
UNITED	PRC	42 (provision of premises facilities; provision of conference facilities; chemical research; chemical analysis; chemical services; cosmetics research)	1207825	The United Laboratories, Limited	13 September 2008
UNITED	PRC	29 (canned fruit; canned seafood; edible oil; food protein; plant protein)	1229369	The United Laboratories, Limited	6 December 2008
UNITED	PRC	30 (edible starch products)	1283930	The United Laboratories, Limited	13 June 2009

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
聯邦	PRC	30 (fruit drinks (ice); edible ice; ice-cream)	1286394	The United Laboratories, Limited	20 June 2009
强力安必仙	PRC	5 (human medicine; medicine capsule; medical chemical substance; medical chemical substance; medical substance; medical biological substance; biochemical medicine; chemical medical substance; medical nutritional drinks; medical nutritional food)	1377756	The United Laboratories, Limited	27 March 2010
强力阿莫仙	PRC	5 (human medicine; medicine capsule; medical chemical substance; medical chemical substance; medical substance; medical biological substance; biochemical medicine; chemical medical substance; medical nutritional drinks; medical nutritional food)	1377757	The United Laboratories, Limited	27 March 2010
新阿莫仙	PRC	5 (chemical medical substance; human medicine; biochemical medicine; medical tea; medical biological substance; medical fruit rubber; medical chemical substance; medical plants; medical nutritional food; medical nutritional drinks)	1800699	The United Laboratories, Limited	6 July 2012
KINGLY	PRC	5 (medical capsules)	1360202	Kingly Capsule	6 February 2010
	PRC	5 (medical capsules; medicine capsules)	1512426	Kingly Capsule	27 January 2011
联邦希洛	PRC	30 (mint candies)	1361537	Zhongshan Jinyi Food	6 February 2010

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
忧必青	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	3955691	United Laboratories Zhuhai and United Laboratories Zhuhai (Zhongshan Branch Company)	20 October 2016
妙　通	PRC	5 (human medicine; biochemical medicine; biological substance for medicine use; medical substance; medical chemical substance; medical herbs; medical nutritional food; medical nutritional drinks; medical diagnostic substance; Chinese medicine)	3955692	United Laboratories Zhuhai and United Laboratories Zhuhai (Zhongshan Branch Company)	20 October 2016

As at the Latest Practicable Date, the Group had registered the following trade marks in Hong Kong:

Trade mark	Place of registration	Class	Registration number	Registered owner	Expiry date
	Hong Kong	5 (pharmaceutical products for the treatment of infections due to staphylococcus aureus, neisseria gonorrhoeae, corynebacterium diphtheriae, escherichia coli, salmonella, shigella, bacillus influenza, leptospirosis, maturity-onset diabetes, allergy, cold and cough, all included in Class 5)	1998B12210	Bowden Trading Limited	4 December 2013

As at the Latest Practicable Date, the Group had applied for registration of the following trade marks in the PRC:

Trade mark	Class	Application number	Applicant	Date of application
安唐平	5	4188377	United Laboratories Zhuhai	26 July 2004
阿西他	5	4938392	United Laboratories Zhuhai	12 October 2005

As at the Latest Practicable Date, the Group had registered the following patents:

Patent	Country of registration	Certificate number	Registration number	Registered owner	Date of certificate	Date of application *(Note)*
Packaging box (Ampicillin Capsules – B1)	PRC	470334	ZL200430095196.4	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Amoxicillin Capsules – 25)	PRC	470304	ZL200430095197.9	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Amoxicillin Capsules – 524)	PRC	470406	ZL200430095199.8	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Ibuprofen Sustained Release Capsules 312 – OTC)	PRC	470507	ZL200430095201.1	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Amoxicillin Granules – 11)	PRC	470595	ZL200430095214.9	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Amoxicillin and Clavulanate Potassium for Suspension – 12)	PRC	470511	ZL200430095215.3	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Amoxicillin and Clavulanate Potassium Tablets – 146)	PRC	470296	ZL200430095217.2	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Paracetamol Triprolidine Hydrochloride and Pseudoephedrine Hydrochloride Tablets – 23)	PRC	484326	ZL200430095222.3	United Laboratories Zhuhai	19 October 2005	6 December 2004
Packaging box (Glipizide Tablets – 24)	PRC	470320	ZL200430095223.8	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Cefuroxime Axetil Tablets – 17)	PRC	470464	ZL200430095226.1	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Compound Codeine Phosphate Oral Solution – 56120)	PRC	470321	ZL200430095233.1	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Potassium Guaiacolsulfonate and Codeine Phosphate Oral Solution – 57)	PRC	470593	ZL200430095234.6	United Laboratories Zhuhai	17 August 2005	6 December 2004
Packaging box (Dextromethorphan Hydrobromide Oral Solution –58)	PRC	470513	ZL200430095235.0	United Laboratories Zhuhai	17 August 2005	6 December 2004

Note: Under PRC law registered patents are valid for a period of 10 years from the date of application. A The owner of a registered patent is required to pay an annual fee to maintain the validity of the patent each year within one month before the anniversary of the application date. Failure to pay the annual fee will render the patent subject to termination from the date on which payment is due. As at the Latest Practicable Date, the annual fee for the above 13 patents had been paid by the Group.

As at the Latest Practicable Date, the Group had applied for registration of the following patents in the PRC:

Name of invention	Country of registration/ application	Application number	Applicant	Date of application
One type of hepatitis B vaccine, its preparation method and application	PRC	200510033869.7	United Laboratories Zhuhai	31 March 2005
One type of medical compound containing amoxicillin and its preparation method	PRC	200610032640.6	United Laboratories Zhuhai	5 January 2006
One type of finished product for the cure of respiratory infection and its preparation method	PRC	200610033066.6	United Laboratories Zhuhai	19 January 2006
One type of medical compound containing ampicillin and its preparation method	PRC	200610033692.5	United Laboratories Zhuhai	20 February 2006
One type of preparation method for a medical compound containing amoxicillin sodium and clavulanate potassium	PRC	200610033852.6	United Laboratories Zhuhai	23 February 2006

Domain name

As at the Latest Practicable Date, the Group had registered the following domain name:

Domain name	Registered owner	Expiry date of registration
http://www.tul.com.cn	United Laboratories Zhuhai	30 September 2009

FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

Particulars of service contracts

Each of Mr Choy, Ms Peng and Mr Leung has entered into a service contract dated 25 May 2007 with the Company under which they agreed to act as executive Directors 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 is approximately HK$1,800,000 and to each of Ms Peng and Mr Leung is approximately HK$1,200,000 each 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 in this prospectus, none of the Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Directors' remuneration

The Directors' emoluments for each of the three years ended 31 December 2004, 2005 and 2006 were approximately HK$1,957,000, HK$2,066,000 and HK$3,560,000 respectively.

Remuneration and benefits in kind of approximately HK$2,066,000 in aggregate were paid and granted to the Directors by the Group in respect of the financial year ended 31 December 2005.

It is estimated that remuneration and benefits in kind equivalent to approximately HK$4,926,000 in aggregate will be paid and granted to the Directors by the Company in respect of the financial year ending 31 December 2007 under arrangements in force at the date of this prospectus.

Interests of Directors in the share capital of the Company after the Share Offer

Directors

Interests and/or short positions of Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations

Immediately following completion of the Share Offer and assuming that the Over-allotment Option is not exercised, the interests and/or short positions of the Directors and chief executive in

the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange, once the Shares are listed, will be as follows:

Name of director	**Company/name of associated corporation**	**Capacity**	**Number and class of securities** *(Note 1)*	**Approximate percentage of interest**
Choy Kam Lok	Company *(Note 2)*	Founder of a trust	900,000,000 Shares *(L)*	75.0%
Choy Kam Lok	Company *(Note 3)*	Founder of a trust	45,000,000 Shares *(S)*	75.0%
Choy Kam Lok	BVI Holding Company *(Note 4)*	Founder of a trust	one share of US$1 each *(L)*	100%
Choy Kam Lok	BVI Intermediate Company *(Note 5)*	Founder of a trust	one share of US$1 each *(L)*	100%

Notes:

1. The letters "L" and "S" denote the Director's long position and short position in such securities respectively.

2. Mr Choy is the founder of The Choy Family Trust. For the purpose of Part XV of the SFO, Mr Choy is deemed or taken to be interested in the entire issued share capital of BVI Holding Company and BVI Intermediate Company which form part of the property of The Choy Family Trust. By virtue of his interests in BVI Holding Company and BVI Intermediate Company, Mr Choy is deemed or taken to be interested in the long position 900,000,000 Shares beneficially owned by BVI Intermediate Company for the purpose of the SFO.

3. Mr Choy is the founder of The Choy Family Trust. For the purpose of Part XV of the SFO, Mr Choy is deemed or taken to be interested in the entire issued share capital of BVI Holding Company and BVI Intermediate Company which form part of the property of The Choy Family Trust. By virtue of his interests in BVI Holding Company and BVI Intermediate Company, Mr Choy is deemed or taken to be interested in the short position of 45,000,000 Shares in which each of BVI Holding Company and BVI Intermediate Company is taken to be interested pursuant to the Stock Borrowing Agreement for the purpose of Part XV of the SFO.

4. Mr Choy is the founder of The Choy Family Trust. For the purpose of Part XV of the SFO, Mr Choy is deemed or taken to be interested in the entire issued share capital of BVI Holding Company which forms part of the property of The Choy Family Trust.

5. Mr Choy is the founder of The Choy Family Trust. For the purpose of Part XV of the SFO, Mr Choy is deemed or taken to be interested in the entire issued share capital of BVI Intermediate Company which forms part of the property of The Choy Family Trust.

Substantial shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer and assuming that the Over-allotment Option is not exercised, but taking no account of Shares which may be taken up under the Share Offer, the following persons, not being a director or chief executive officer of the Company, will have an interest and/or a short position in the shares or underlying shares of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of substantial shareholder	**Capacity**	**Number of Shares** *(Note 1)*	**Approximate percentage of interest**
BVI Intermediate Company	Beneficial owner	900,000,000 Shares *(L)*	75.0%
BVI Intermediate Company *(Note 2)*	Beneficial owner	45,000,000 Shares *(S)*	3.75%
BVI Holding Company *(Note 3)*	Interest in a controlled corporation	900,000,000 Shares *(L)*	75.0%
BVI Holding Company *(Note 4)*	Interest in a controlled corporation	45,000,000 Shares *(S)*	3.75%
DBS Trustee H.K. (Jersey) Limited *(Note 5)*	Trustee of a trust	900,000,000 Shares *(L)*	75.0%
DBS Trustee H.K. (Jersey) Limited *(Note 6)*	Trustee of a trust	45,000,000 Shares *(S)*	3.75%

Notes:

1. The letters "L" and "S" denote the substantial shareholder's long position and short position in such securities respectively.

2. BVI Intermediate Company is taken to be interested in the short position of 45,000,000 Shares pursuant to the Stock Borrowing Agreement for the purpose of the SFO.

3. BVI Holding Company is interested in the entire issued share capital of BVI Intermediate Company. For the purpose of Part XV of the SFO, BVI Holding Company is deemed or taken to be interested in the long position of 900,000,000 Shares beneficially owned by BVI Intermediate Company.

4. BVI Holding Company is taken to be interested in the short position of 45,000,000 Shares pursuant to the Stock Borrowing Agreement for the purpose of the SFO.

5. DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust. As the trustee of The Choy Family Trust, DBS Trustee H.K. (Jersey) Limited is deemed or taken to be interested in the long position of 900,000,000 Shares in which The Choy Family Trust is deemed or taken to be interested for the purpose of Part XV of the SFO.

6. DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust. As the trustee of The Choy Family Trust, DBS Trustee H.K. (Jersey) Limited is deemed or taken to be interested in the short position of 45,000,000 Shares in which The Choy Family Trust is deemed or taken to be interested for the purpose of Part XV of the SFO.

Agency fees or commissions

Save for the expenses and commission payable in respect of the Share Offer as disclosed in the section headed "Preliminary expenses" in this Appendix V, within the two years immediately preceding the date of this prospectus, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of the Group.

Related party transactions

During the two years preceding the date of this prospectus, the Company was engaged in related party transactions as described under the section headed "Related Party Transactions" and note (g) of the accountants' report set out in Appendix I to this prospectus.

Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors or chief executive of the Company has any interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to the Company and the Stock Exchange, in each case once the Shares are listed;

(b) none of the Directors nor any of the parties listed in the paragraph headed "Consents" in the section headed "Other Information" of this Appendix is interested in the promotion of, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors nor any of the parties listed in the paragraph headed "Consents" in the section headed "Other Information" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and

(d) save for in connection with the Public Offer Underwriting Agreement and the International Placing Underwriting Agreement, none of the parties listed in the paragraph headed "Consents" in the section headed "Other Information" of this Appendix:

    (i) is interested legally or beneficially in any of the Shares or any shares in any of the subsidiaries; or

    (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for such securities.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 25 May 2007:

(a) Definitions

For the purpose of this paragraph headed "Share option scheme", the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	the date on which the Share Option Scheme becomes unconditional
"Board"	the board of Directors or a duly authorised committee of the board of Directors
"Controlling Shareholder"	any person who has the power, directly or indirectly, to secure: (i) by means of the holding of shares entitling him to exercise or control the exercise of 30% (or such lower amount as may from time to time be specified in the Code on Takeovers and Mergers (approved by the Securities and Futures Commission as amended from time to time) as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company, or (ii) by means of controlling the composition of a majority of the Board, or (iii) by virtue of any powers conferred by the constitutional document of the Company or any other corporation, that the affairs of the Company are conducted in accordance with the wishes of such person
"Eligible Person"	means: (i) (a) any director (whether executive or non-executive, including any independent non-executive director) or employee (whether full time or part time) of, or

(b) any individual for the time being seconded to work for,

any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder (a "Category A Eligible Person"); or

(ii) any holder of any securities issued by any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder (a "Category B Eligible Person"); or

(iii) (a) any business or joint venture partner, contractor, agent or representative of,

(b) any person or entity that provides research, development or technological support or any advisory, consultancy, professional services incident to the business of the Company and/or its subsidiaries to,

(c) any investor, vendor, supplier, developer or licensor of,

(d) any customer, licensee (including any sublicensee), wholesaler, retailer, trader or distributor of goods or services of,

any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder (a "Category C Eligible Person");

and, for the purposes of the Share Option Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants

"Group"	the Company and its subsidiaries
"Scheme Period"	the period commencing on the Adoption Date and expiring at the close of business on the day immediately preceding the tenth anniversary thereof

References to "substantial shareholder", "connected person", "associates" and "independent non-executive Directors" shall have the meaning given those terms under the Listing Rules.

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Board to grant options to selected Eligible Persons as incentives or rewards for their contribution or potential contribution to the Group.

The terms of the Share Option Scheme provide that in granting options under the Share Option Scheme, the Board can determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Share Option Scheme can be exercised. The Board will also determine the option price per Share payable on the exercise of an option according to the terms of the Share Option Scheme. With such conditions, together with the incentive that the option will bring about, the Board would be able to ensure a specified level of standard, which the Board believes, will serve the purpose of the Share Option Scheme.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Person to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any of the Eligible Persons to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(iii) Option price for subscription of Shares

The option price per Share payable on the exercise of an option is to be determined by the Board provided always that it shall be at least the higher of:

(aa) if the option is granted before five business days have elapsed from (and including) the date on which trading of the Shares first commences on the Stock Exchange (the "Listing Date"):

(i) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the number of business days which have elapsed from (and including) the Listing Date; and

(ii) the Offer Price; or

(bb) if the option is granted after five business days have lapsed from (and including) the Listing Date:

(i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the Eligible Person), which must be a business day; and

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the Eligible Person),

(as subsequently adjusted pursuant to the terms of the Share Option Scheme, if relevant), provided that the option price per Share shall in no event be less than the nominal amount of one Share.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within twenty-one days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$10.00.

(v) Maximum number of Shares

(aa) Subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the commencement of the Scheme Period (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue as at the date of Listing upon completion of the Share Offer and the Capitalisation Issue (the "Scheme Mandate"). The Scheme Mandate will amount to a maximum number of 120,000,000 Shares upon completion of the Share Offer and the Capitalisation Issue (the "Scheme Mandate Shares"). The Shares underlying any options granted under the Share Option Scheme or any other share option schemes of the Company which have been cancelled (but not options which have lapsed) will be counted for the purpose of the Scheme Mandate.

(bb) The Scheme Mandate may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the Shares in issue at the date of the shareholders' approval of such refreshed Scheme Mandate. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including those exercised, outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the total number of Shares subject to the refreshed Scheme Mandate.

(cc) The Company may also, by obtaining separate approval of the shareholders in general meeting, grant options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Eligible Persons specifically identified by the Company before such approval is sought. The Company shall send a circular to the shareholders which shall contain the information required by the Listing Rules.

(dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

(vi) Maximum entitlement of each Eligible Person

The maximum number of Shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by shareholders with such Eligible Person and his associates abstaining from voting. The number and terms of the options shall be fixed before shareholder's approval and the Company shall send a circular to the shareholders which shall contain the information required by the Listing Rules.

(vii) Grant of options to certain connected persons

(aa) Any grant of an option to a Director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(bb) Where any grant of options to a substantial shareholder of the Company or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant (in relation to any option the offer of which is accepted by such person to whom the offer was made, the date on which an option is offered to such person, which must be a business day):

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at each date of grant (in relation to any option the offer of which is accepted by such person to whom the offer was made, the date on which an option is offered to such person, which must be a business day), in excess of HK$5 million,

such further grant of options is required to be approved by shareholders at a general meeting of the Company, with voting to be taken by way of poll. All connected persons of the Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular which the Company is required to send to shareholders in accordance with the Listing Rules. Any change in the terms of an option granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates is also required to be approved by shareholders in the aforesaid manner.

(viii) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted).

(ix) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(x) Ranking of Shares

If under the terms of a resolution passed or an announcement made by the Company prior to the date of exercise of an option, a dividend is to be or is proposed to be paid, or Shares are to be issued or proposed to be issued by way of the capitalisation of profits or reserves or by way of rights under an offer made pro rata, to shareholders on the register of members of the Company on a date prior to such date of exercise, the Shares to be issued upon such exercise will not rank for such dividend or such Shares. Subject as aforesaid, Shares allotted upon the exercise of an outstanding option will be subject to all the provisions of the memorandum of association and the articles of association of the Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of such exercise. Shares allotted upon the exercise of an option for the time being outstanding shall not carry voting rights until completion of the registration of the option holder (or any other person) as the holder thereof.

(xi) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xii) Rights of exercise for grantees who were Category A Eligible Persons

If a grantee of an option who at the time of grant of an option to him qualified as an Eligible Person because he was a Category A Eligible Person ceases to be such a Category A Eligible Person:

(aa) by reason of ill-health or injury or disability or death, then he or (as the case may be) his personal representative(s) may exercise his outstanding option within six months or up to the expiration of the relevant option period, whichever is earlier, failing which the option will lapse; or

(bb) because the relevant member of the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder by reason of his employment or engagement with, or secondment to, which he qualified as a Category A Eligible Person at the time the option was granted ceases to be a member of the Group or a Controlling Shareholder or a company controlled by the relevant Controlling Shareholder (as the case may be), then he may exercise his outstanding option within six months or up to the expiration of the relevant option period, whichever is earlier, failing which the option will lapse; or

(cc) by reason of retirement in accordance with his contract of employment or service, then he may exercise his outstanding option within six months after he so ceases or, if the Board in its absolute discretion determine, within six months following the date of his sixtieth birthday where the retirement takes effect prior to such date, failing which the option will lapse; or

(dd) by reason of voluntary resignation or dismissal, or upon expiration of his term of directorship (unless immediately renewed upon expiration), or by termination of his employment or service in accordance with the termination provisions of his contract of employment or service by the relevant company otherwise than by reason of redundancy, then his outstanding options shall lapse on the date he so ceases; or

(ee) on the grounds that he has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has committed any serious misconduct or has been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the grantee or the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder into disrepute), then his outstanding options shall lapse automatically on the date of his ceasing to be an Eligible Person; or

(ff) for any other reason, any options exercisable at the date he so ceases may be exercised within three months of the date he so ceases, failing which the option will lapse,

provided always that in each case the Board in its absolute discretion may decide that such options or any part thereof shall not so lapse or determined subject to such conditions or limitations as it may decide.

(xiii) Rights of exercise for grantees who were Category B Eligible Persons

If a grantee of an option who at the time of grant of an option to him qualified as an Eligible Person because he was a Category B Eligible Person:

(aa) ceases to be a Category B Eligible Person by reason that such grantee ceases to be a holder of any securities issued by the relevant member of the Group or the relevant Controlling Shareholder or the relevant company controlled by a Controlling Shareholder, then his outstanding option shall lapse on the date he so ceases; or

(bb) ceases to be a Category B Eligible Person because the relevant member of the Group by reason of his holding of securities in which he qualified as a Category B Eligible Person at the time the option was granted ceases to be a member of the Group, then he may exercise his outstanding option within six months after he so ceases or up to the expiration of the option period, whichever is earlier, failing which the option will lapse; or

(cc) ceases to be a Category B Eligible Person because the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder by reason of his holding of securities in which he qualified as a Category B Eligible Person at the time the option was granted ceases to be a Controlling Shareholder or a company controlled by the relevant Controlling Shareholder (as the case may be), then his outstanding option shall lapse on the date he so ceases; or

(dd) (if the grantee is an individual) dies, then his personal representative(s) may exercise his outstanding option within six months after his death or up to the expiration of the option period, whichever is earlier, failing which the option will lapse; or

(ee) has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has committed any serious misconduct or has been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the grantee or the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder into disrepute), then his outstanding option shall lapse automatically on the date of the relevant court order, resolution, misconduct or conviction or the effective date of the relevant arrangements or composition (as the case may be),

provided always that in each case the Board in its absolute discretion may decide that such option or any part thereof shall not so lapse or determine subject to such conditions or limitations as it may decide.

(xiv) Rights of exercise for grantees who were Category C Persons

If a grantee of an option who at the time of grant of an option to him qualified as an Eligible Person because he was a Category C Eligible Person:

(aa) has, in the absolute determination of the Board, committed any breach of contract entered into between such Eligible Person and the relevant member of the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder; or

(bb) has committed any act of bankruptcy or become insolvent or made any arrangements or composition with his creditors generally or committed any serious misconduct or been convicted of any criminal offence (other than an offence which in the opinion of the Board does not bring the grantee or the Group or the relevant Controlling Shareholder or the relevant company controlled by the relevant Controlling Shareholder into disrepute);

then his outstanding options shall lapse and determine automatically on the date of the Board's determination referred to in sub-paragraph (aa) above or, as the case may be, the date of the relevant court order, resolution, misconduct or conviction or the effective date of the relevant arrangements or composition (as the case may be) for the relevant event referred to in sub-paragraph (bb) above; or

(cc) if the grantee (if he is an individual) dies, then his personal representative(s) may exercise his outstanding option within six months after his death or up to the expiration of the option period, whichever is earlier, failing which the option will lapse,

provided always that in each case the Board in its absolute discretion may decide that such options or any part thereof shall not so lapse or determined subject to such conditions or limitations as it may decide.

(xv) Rights on exercise for grantees which were companies controlled by any of the Eligible Persons

In respect of any option granted to a company which qualified as an Eligible Person because it was a company controlled by a person ("Such Person") who was a Category A Eligible Person or Category B Eligible Person or Category C Eligible Person:

(aa) the relevant provisions set out in paragraphs (xii), (xiii), or (xiv) (as the case may be) would apply to its outstanding option as if the option had been granted to Such Person; and

(bb) its outstanding option shall lapse on the date it ceases to be a company controlled by Such Person,

provided always that in each case the Board in its absolute discretion may decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as it may decide.

(xvi) Failure to meet continuing eligibility criteria

If the Board in the offer granting the relevant option has specified that the grantee has to meet certain continuing eligibility criteria and that the failure of the grantee to meet any such continuing eligibility criterion would entitle the Company to cancel the option then outstanding (or part thereof), then upon the failure of the grantee to meet any such continuing eligibility criterion, his outstanding option shall lapse and determine on the date the Board exercises the Company's right to cancel the option on the ground of such failure.

(xvii) Rights on a general offer

If a general offer by way of takeover is made to all the shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the grantee of an option shall, subject to paragraph (viii) above, be entitled to exercise at any time within a period of fourteen days after such control has been obtained by the offeror any option in whole or in part to the extent not already exercised (and notwithstanding any restrictions which would otherwise have prevented such option from being exercisable at that time). For the avoidance of doubt, an option not so exercised shall remain valid in accordance with its terms and subject to such restrictions as applied to it before the general offer.

(xviii) Rights on winding-up

If notice is given by the Company to shareholders of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, the Company shall forthwith give notice to all grantees of options and each grantee shall be entitled, at any time no later than two business days prior to the proposed general meeting of the Company to exercise any of his outstanding options in whole or in part to the extent not already exercised (and notwithstanding any restrictions which would otherwise have prevented such option from being exercisable at that time). If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse and determine on the commencement of the winding-up.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and its members and creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, notice of the relevant meeting shall be given to the grantees of options on the same day notice is given to the Company's members and creditors, and thereupon each grantee (or where permitted his personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court be entitled to exercise his option, but such exercise of an option shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Failing such exercise, all options will lapse.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

(aa) the expiry of the period referred to in paragraph (viii) above;

(bb) the date on which the grantee commits a breach of paragraph (xi) above, if the Board shall exercise the Company's right to cancel the option;

(cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xii), (xiii), (xiv), (xv) and (xvi) above; and

(dd) the expiry of any of the relevant periods referred to in paragraphs (xviii) or (xix) above.

(xxi) Cancellation of options granted but not yet exercised

Following the cancellation of any options granted under the Share Option Scheme but not exercised, new options may only be granted to the same grantee under the Share Option Scheme with available unissued options (excluding the cancelled options) within the limit of the Scheme Mandate then available to the Board.

(xxii) Effects of alterations to capital

Subject to applicable laws and the requirements under the Listing Rules, in the event of any reduction, sub-division or consolidation of the share capital of the Company or any capitalisation issue or rights issue, the number of Shares comprised in each option and/or the option price may be adjusted in such manner as the Board (having, except in the case of an issue of Shares by way of the capitalisation of profits or reserves, received a statement in writing from the auditors of the Company or an independent financial adviser appointed for such purpose that in their opinion the adjustments proposed are fair and reasonable) may deem appropriate, provided always that (aa) (in the case of adjustment to the number of Shares comprised in each outstanding option) the grantee shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments, (bb) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value and (cc) any such adjustments shall be made in compliance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option scheme. The issue of Shares as consideration in a transaction will not be regarded as a circumstance requiring adjustment.

(xxiii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional and shall expire at the close of business on the day preceding the tenth anniversary thereof unless terminated earlier by shareholders in general meeting.

(xxiv) Alteration to the Share Option Scheme

(aa) The Board may from time to time in its absolute discretion waive or amend the rules of the Share Option Scheme as they deem desirable, provided that, except with the prior sanction of the Company in general meeting, no alteration shall be made to the Share Option Scheme extending the class of Eligible Persons, or altering the advantage of the holders of the options any of the provisions relating to matters governed by Rule 17.03 of the Listing Rules.

(bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the options granted must be approved by shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(cc) Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(dd) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(xxv) Termination to the Share Option Scheme

The Company may, with the approval in general meeting of the shareholders, terminate the Share Option Scheme at any time following which no further grant of options shall be offered but in all other respects the rules of the Share Option Scheme shall continue in full force and effect in respect of such options as may have been granted under the Share Option Scheme prior to such termination. Any options granted prior to such termination, including options exercised or outstanding, under the Share Option Scheme shall continue to be valid and exercisable in accordance with the rules of the Share Option Scheme.

(xxvi) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in the Scheme Mandate Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

OTHER INFORMATION

Estate duty and tax indemnity

The Choy Family and BVI Intermediate Company have, under a deed of indemnity referred to in paragraph (j) of the sub-section headed "Material contracts" in this Appendix, given joint and several indemnities in connection with, among other things, (a) any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of any property in accordance with sections 35 and/or 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Share Offer becomes unconditional; and (b) any taxation which might be payable by any member of the Group (i) in respect of any income, profits or gains earned, accrued, or received or deemed to have been earned, accrued or received on or before the date on which Share Offer becomes unconditional; or (ii) in respect of or in consequence of any event or any transactions occurring or deemed to occur on or before the date on which the Share Offer becomes unconditional. The deed of indemnity does not prescribe any time limit for claims to be made under the estate duty and tax indemnity.

The Taxation Covenantors will however, not be liable under the deed of indemnity for taxation to the extent that:

- specific provision or reserve has been made for such taxation in the audited accounts of the Group for the year ended 31 December 2006; or

- the taxation arises or is increased as a result of only a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or

- the taxation liability would not have arisen but for any voluntary act of any member of the Group after the date on which the Share Offer becomes unconditional but excluding any act:

  (i) carried out pursuant to a legally binding obligation of any member of the Group entered into or incurred on or before the date on which the Share Offer becomes unconditional; or

  (ii) taking place with the written approval of any of the Taxation Covenantors or pursuant to the Share Offer or any document executed pursuant to the Share Offer; or

  (iii) occurring in the ordinary course of business of the relevant member of the Group; or

- the taxation liability arises in the ordinary course of business of any member of the Group after 31 December 2006 up to and including the date on which the Share Offer becomes unconditional.

The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands, the BVI or PRC law is likely to fall upon any member of the Group in the Cayman Islands, the BVI or the PRC.

Litigation

On 29 May 2007, the Group received a letter (the "Letter") from a firm of PRC lawyers acting on behalf of an individual who claims to be the holder of the trade mark registered under Class 5 in the PRC on 21 February 2007. The Letter alleges that the Group has used the trade mark registered by such individual on certain of its products and that such use is unauthorised and constitutes an infringement. The Letter further threatens legal action against the Group unless, among other things, it ceases to use such trade mark on products falling within Class 5. The Group is not aware that any legal proceedings have been commenced in relation to any of the matters referred to in the Letter.

The Group, through The United Laboratories, Limited, currently holds the registration of the trade mark under Class 5 and Class 30 in the PRC. Such registrations were both first obtained in 1993 and currently have an effective term until 2013. On the basis that the Group has registered the trade mark under Class 5 in the PRC on an earlier date than the registration of the trade mark referred to in the Letter, the PRC legal advisers to the Company have advised that: (a) the registration of the trade mark held by the Group is legal and valid and takes precedence over, and hence, the Group has the right under PRC law to apply for the revocation of, the registration of the trade mark referred to in the Letter; and (b) the Group has the exclusive right to use the trade mark it has registered under Class 5 in the PRC during the effective term of its registration; (c) the allegations and claims contained in the Letter that the Group does not have the right to use the trade mark that it has registered are unsubstantiated; and (d) any action by the alleged holder of the trade mark referred to in the Letter to require the Group to cease using the trade mark that it has registered in connection with any products covered by such registration will not be upheld by the PRC courts or trade mark registration authority. On such basis, the Directors intend to take such action as may be necessary to contest those claims and allegations, including applying for the revocation of the registration of the trade mark referred to in the Letter.

No member of the Group is engaged in any litigation or arbitration of material importance and, save as disclosed above, no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

Global Coordinator's, Sponsor's and Underwriters' interests

The Sponsor has made an application on behalf of the Company to the Listing Committee for the listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to any options which may be granted under the Share Option Scheme. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

None of the Global Coordinator, Sponsor or Underwriters is interested legally or beneficially in any shares of any member of the Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of the Group nor any interests in the Share Offer.

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US$5,273.9 (equivalent to approximately HK$41,249.3) and are payable by the Company.

Promoter

The promoter of the Company is Mr Choy. Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given or proposed to be paid, allotted or given to the promoter in connection with the Share Offer or the related transactions described in this prospectus.

Particulars of the Selling Shareholder

Certain particulars of the Selling Shareholder as at the Latest Practicable Date are set out as follows:

Name:	Heren Far East Limited (喜來遠東有限公司)
Registered address:	Portcullis TrustNet Chambers P.O. Box 3444 Road Town Tortola British Virgin Islands
Number of shares authorised to issue:	50,000 shares of US$1.00 each
Director:	Choy Kam Lok
Description of business:	Investment holding

Qualification of experts

The following are the qualifications of the experts which have given their opinion or advice which is contained in, or referred to in, this prospectus:

Expert	Qualification
The Hongkong and Shanghai Banking Corporation Limited	A registered institution under the Securities and Futures Ordinance to carry on type 1 (Dealing in Securities), type 4 (Advising on Securities), type 6 (Advising on Corporate Finance) regulated activities and is also a licensed bank under the Banking Ordinance
Deloitte Touche Tohmatsu	Certified public accountants
Commerce & Finance Law Offices	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands legal advisers
Sallmanns (Far East) Limited	Property valuer

Consents of experts

Each of HSBC, Deloitte Touche Tohmatsu, Commerce & Finance Law Offices, Conyers Dill & Pearman and Sallmanns (Far East) Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the Company the form and context in which it is respectively included.

Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller being 0.1% of the consideration or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) the Cayman Islands

Under present the Cayman Islands law, transfers and other dispositions of Shares are exempt from the Cayman Islands stamp duty.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of section 44A and 44B of the Companies Ordinance so far as applicable.

Exemption from the Companies Ordinance

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

(a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, the Company has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other cash;

(b) save as disclosed in this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) the Company has not issued nor agreed to issue any founder shares, management shares, or deferred shares;

(d) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(e) save as disclosed in this prospectus, the Company does not have any outstanding convertible debt securities;

(f) save as disclosed in this prospectus, there has not been any interruption in the business of the Group which may have had a material adverse effect on the financial position of the Group within the twelve months preceding the date of this prospectus; and

(g) save as disclosed in this prospectus, none of the equity of the Company is listed or dealt with on any stock exchange nor is any listing or permission to deal being or proposed to be sought.

GENERAL

Share registers

Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Butterfield Fund Services (Cayman) Limited and a branch register of members will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title to the Shares must be lodged for registration with, and registered by, the branch share registers of the Company in Hong Kong and may not be lodged in the Cayman Islands.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the particulars of the Selling Shareholder, the written consents referred to in the sub-paragraph headed "Consents of experts" in the paragraph headed "Other information" in Appendix V to this prospectus, and copies of the material contracts referred to in the sub-paragraph headed "Summary of material contracts" in the paragraph headed "Further information about the business" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Norton Rose, 38th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the memorandum and articles of association of the Company;

(b) the Accountants' Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the financial statements that have been prepared for the companies comprising the Group for each of the three years ended 31 December 2004, 2005 and 2006 or from their respective dates of incorporation where this is a shorter period;

(d) the report on pro forma financial information relating to adjusted net tangible assets prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II as item C;

(e) the letter, summary of valuation and valuation certificates prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix III to this prospectus;

(f) the legal opinions prepared by Commerce & Finance Law Offices in respect of certain aspects of the Group and the property interests of the Group;

(g) the particulars of the Selling Shareholder including its name, address and description;

(h) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;

(i) the materials contracts referred to in the sub-paragraph headed "Summary of material contracts" in the paragraph headed "Further information about the business" in Appendix V to this prospectus;

(j) the written consents referred to in the sub-paragraph headed "Consents of experts" in Appendix V to this prospectus;

(k) the rules of the Share Option Scheme; and

(l) the Companies Law.

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